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America is set on a brave but hazardous course ... More on this week's lead article

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Politics this week

Jan 31st 2002
From The Economist print edition

Exit this way

Reuters

Makiko Tanaka, Japan's first female foreign minister, was sacked. The prime minister, Junichiro Koizumi, said her quarrels with ministry bureaucrats and their political backers threatened to sidetrack his economic-reform programme. Miss Tanaka said she would continue to support Mr Koizumi "from the shadows".

See article: Japan loses its foreign minister

Hundreds of asylum-seekers in Australia's Woomera detention camp ended their 16-day **hunger strike** after the government said it would speed up consideration of their applications.

The Indian prime minister, Atal Bihari Vajpayee, said his country would not go to war with **Pakistan**. Diplomatic efforts would resolve the neighbours' disputes.

In a new development in the United States-led war against terrorism, some 650 American soldiers arrived in the **Philippines** for a "shoulder-to-shoulder" exercise with Philippine troops against Muslim guerrillas said to have links with al-Qaeda.

See article: Terror in the Philippines

Larger at a price

The European Commission published its ideas for limiting the **costs of EU enlargement**: much smaller "direct" subsidies—at first—to farmers in the new members than in existing ones; a limit, 4% of GDP, on regional aid.

See article: Cutting the costs of EU enlargement

Cut production-related **farm subsidies** and raise environment-related ones, suggested an official study group in Britain. And give British supermarkets tax incentives to sell local produce. Rob Peter to underpay Paul, sniffed the farmers' union.

A blow to the planned **Airbus A400M** heavy-lift military aircraft: facing legal action by opposition parties, the German government conceded that it could not promise to pay for all the 73 planes that it is committed to purchase.

A red face for Germany's interior minister, **Otto Schily**, who wants a constitutional ban on the far-right National Democratic Party: a senior NPD member on whose utterances the case was partly based turned out to be an agent of the security services. A similar revelation last week had already prompted the Constitutional Court to postpone hearings.

AP

Gerhard Schröder, Germany's raven-haired chancellor, threatened injunctions against anyone repeating allegations reported by a German news agency that he dyes his locks to disguise his greying temples.

Pope John Paul told Italy's judges and lawyers that they should not handle

divorce cases. He was meddling in matters where the church has no business, big majorities of Italians told pollsters.

A Russian deputy interior minister and 13 officials were killed in **Chechnya** when a helicopter crashed outside Grozny, the capital.

Kjell Magne Bondevik, **Norway's** new prime minister, announced that he would not hold a referendum on joining the EU.

Bad news for **Albania's** reformers, as their country's youthful Socialist prime minister, Ilir Meta, resigned amid a power-struggle with an ageing fellow Socialist and former prime minister, Fatos Nano.

See article: Albania's latest crisis

Prison visitor

During his first visit to the **Guantanamo** naval base in Cuba, Donald Rumsfeld, the American defence secretary, reaffirmed that the 158 suspected terrorists being held there did not qualify for prisoner-of-war status.

In his first state-of-the-union address, **President George Bush** singled out the war against terrorism, homeland security and beating America's deepening recession as his priorities. Mr Bush pointed an accusing finger at North Korea, Iran and Iraq, which he said constituted “an axis of evil, arming to threaten the peace of the world.”

EPA

See article: George Bush's big speech

Mr Bush promised that the United States would help rebuild a national **Afghan army.** He also emphasised that America's commitment to Afghan security and reconstruction was for the long term.

The Nevada State Athletic Commission refused to give a licence to **Mike Tyson** for his forthcoming $150m fight in Las Vegas. Mr Tyson recently bit the leg of Lennox Lewis, the current heavyweight world champion, at a press conference to publicise the bout in New York.

Luis Miquilena, **Venzuela's** interior minister, resigned, leaving President Hugo Chavez more isolated and unpopular than ever.

See article: The increasing unpopularity of Venezuela's Hugo Chavez

Arafat alone

Yasser Arafat, already under siege by Israel, came under fire from George Bush and Dick Cheney for not doing more to rout out terrorism. America was then reproached by the UN, the EU, Saudi Arabia and Egypt for isolating the Palestinians' leader.

See article: Is there an alternative to Yasser Arafat?

Relations between **Iraq and Iran** remained cool despite a meeting in Tehran. But both countries reacted angrily to George Bush's attack on them in his state-of-the-union speech.

A **Palestinian woman** who killed herself and an Israeli with explosives in Jerusalem on January 27th was identified as Wafa Idris, a 28-year-old paramedic. Her mother proudly called her a martyr.

In Lagos, **Nigeria's** commercial capital, an ill-maintained munitions dump exploded in the middle of the night. Terrified crowds fled the area, and some ran into a canal. At least 700 people died, mostly by

drowning.

See article: Tragedy in Nigeria

A huge protest was held in Antananarivo, the capital of **Madagascar**, in support of the opposition candidate, Mark Ravalomanana. A court ruling says that he needs to fight a second round against the incumbent president, Didier Ratsiraka; his supporters say he won in the first round.

EPA

The EU threatened sanctions on senior members of **Zimbabwe's** ruling party if they do not allow European observers to monitor their violent election campaign. But the Commonwealth decided that it would not suspend Zimbabwe's membership.

See article: Sanctions against Zimbabwe

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Business this week

Jan 31st 2002
From The Economist print edition

Access denied, for now

A congressional investigation into the collapse of **Enron** was refused access to records of meetings last year between the failed energy trader and a taskforce charged with formulating America's energy policy, headed by Dick Cheney. America's vice-president spoke of protecting privacy, but of the government or Enron? Congress said that it would take legal action.

See article: Dick Cheney's Enron papers

Tyco's shares fell 20% after the American conglomerate announced plans to split into five parts to realise its true worth—50% higher than its share price indicated, according to Tyco. Scepticism about the firm's accounting practices in particular and American accounting standards in general was suggested as the reason for the fall.

See article: Enron and stockmarket jitters

America's regulators ensured that a joint venture between **British Airways** and **American Airlines** did not get off the tarmac by demanding that the airlines give up 224 landing slots at Heathrow airport as the price for a deal. Britain's government pulled out of talks on a bilateral “open-skies” treaty with America to liberalise transatlantic traffic. American acquiescence to the BA-AA deal had been its price.

See article: BA's deal with American is blocked

Crossed out

Global Crossing, a long-distance telecoms carrier once valued at some $50 billion, filed for Chapter 11 bankruptcy protection. The company, which invested heavily in infrastructure during the Internet boom, has lately suffered from a slump in demand for bandwidth.

See article: Global Crossing: an American parable

The courtship of **Micron**, an American rival, by **Hynix**, a South Korean chip maker, turned cool. Hynix rebuffed Micron's offer of $3.1 billion in shares—it wants around $1 billion more. Micron may yet improve its offer.

Xerox, an American office-equipment maker that has struggled for some years, gave investors a surprise by announcing that it had made an operating profit in the fourth quarter of $108m. It also predicted a profit for 2002. The benefits of a radical restructure last year may be beginning to show.

Motorola and **Nokia** sued Turkey's Uzan family, owner of the country's second-largest mobile operator, Telsim, for over $3 billion in debt repayments. Bringing the case in a New York court, the mobile-phone giants allege 13 counts of illegal activity, mainly suggesting that their money was diverted to other firms owned by the Uzan family.

See article: Nokia and Motorola sue Telsim

Lou Gerstner, the chief executive who revived the fortunes of **IBM** by selling businesses not just computers but “solutions”, said that he would step aside at the end of February but remain chairman until the end of the year. He will be replaced by Samuel Palmisano, the company's president and chief operating officer.

See article: Sam Palmisano, IBM's new boss

Springer surprise

Kirch, a cash-strapped German media company, faced further trouble after **Axel Springer** exercised a put option forcing Kirch to pay *euro*767m ($661m) for the publisher's 11.5% stake in ProSiebenSAT.1, a broadcasting concern in which Kirch already owns a 53% stake. Kirch had been negotiating to delay the option.

See article: Kirch in trouble

P&O Princess's hope of a merger with **Royal Caribbean Cruises** foundered after Britain's government referred the deal to competition watchdogs. **Carnival Corporation**, the world's biggest cruise company, did its bit to sink the merger by reiterating its hostile offer for P&O of £3.6 billion ($5.1 billion) and dropping some conditions, but still subject to regulatory approval.

Merck, an American drug company, announced plans to sell **Medco**, an intermediary between Merck and managed-care companies, probably beginning with an initial public offering of up to 20% of the company that could raise some $3 billion.

Growing again

Taking many by surprise, **America's economy** grew in the fourth quarter; GDP rose by 0.2% in the three months to December at an annual rate. Heavy spending by consumers and indeed government helped America's economy avoid contracting for a second consecutive quarter.

See article: The economy does better

Leading politicians, businessmen and other luminaries gathered in New York for the annual meeting of the **World Economic Forum**. The get-together, usually held in Davos, a remote Swiss ski resort, was relocated after the September 11th attacks as a sign of solidarity with New York.

See article: Is globalisation at risk?

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American leadership

George Bush and the axis of evil

Jan 31st 2002
From The Economist print edition

America is set on a brave but hazardous course

THERE is no doubt that it is a memorable phrase. George Bush's declaration in his state-of-the-union speech to Congress on January 29th that “an axis of evil” threatens the peace of the world will stand alongside Ronald Reagan's description of the Soviet Union as “an evil empire”—as, no doubt, it was intended to. It is also, like that previous slogan, meant to galvanise support by turning a long and tricky foreign-policy challenge into a simple, moral issue. That very simplicity may lead many people, especially outside America, to dismiss it as empty or to condemn it as foolish. On the second count, only time will tell. But the first is surely wrong. One thing that has become clear about President Bush is that, although he may not say very much, he tends to mean what he says.

American presidents often talk about values. What is important here, though, is how the talk could bite

What he said in his speech was not entirely new, but it was remarkable nonetheless (see article). Alongside the usual, easily forgettable stuff about unity and patriotism, and alongside the things he has said repeatedly in recent months about America being engaged in a long struggle against terrorism, President Bush made two broad points that will be important in the coming months and years for Americans and non-Americans alike. The first was that he pointed a finger directly at three countries—Iraq, North Korea and Iran—which he accused of arming themselves with weapons of mass destruction and forming that soon-to-be-famous axis of evil. In effect, he pledged to disarm them, whether by military or other means, and to do so sooner rather than later. No dates were set, nor plans laid out. But he made a clear pledge that this would form the core of America's—ie, his—foreign policy. The second was that this policy would be steered by a clear set of values: “non-negotiable demands”, no less, of human dignity. American presidents often talk about values. What is important here, though, is how the talk could bite. Many of America's allies do not meet his list of values, let alone its enemies.

From Jefferson to Wilson

George Bush, whether as president, governor or just plain mister, has also often talked of his values. But, when he talked about foreign affairs, he gave the impression of wanting America's engagement with the world to be limited. The country should be “humble, but strong”, he said. It should be effective when deploying military or other power overseas, but should do so sparingly and, it was implied, only for limited periods of time. With that approach, he was broadly in the tradition of Thomas Jefferson, even if by no means in his intellectual league. But with this speech, he changed tradition. His words placed him

far closer to President Woodrow Wilson, the idealist whose “fourteen points” on human rights brought about the League of Nations in 1918 but persuaded Congress to reject its ratification.

Can that be right? Not entirely: President Bush does not otherwise exude a Wilsonian idealism. But he does share his missionary zeal. What seems to have happened is that, thanks to September 11th, he has found himself far more deeply engaged in foreign affairs than he expected to be. Well aware of the threat from unpredictable dictatorships wielding missiles and weapons of mass destruction, he had not expected to be fighting a war within a year of taking office. Now, the battle against the al-Qaeda terrorist network is, as he said, going to be a long and painstaking one. It is not over in Afghanistan, and must also be pursued in other countries. That conflict has also convinced him, just as it has convinced or reminded many others, that the spread of nuclear, chemical and biological weapons poses an even bigger threat to the world's safety than do suicidal hijackers. So this too, though formally a separate issue from the battle against al-Qaeda, means that America has a cause it must pursue overseas. Limited engagement is not an option. And in taking on that burden President Bush, like President Reagan before him, is a man of instincts, who favours straightforward yardsticks to guide him.

This approach has some clear virtues. First and foremost, it is surely correct that both the pursuit of al-Qaeda and the control of weapons proliferation are essential and urgent. In the past, too much lip-service has been paid to them and too little action. Second, it is welcome that America's president has committed himself to these tasks. While the worst outcome of the war in Afghanistan would have been defeat, the second worst would have been a victory followed by American disengagement both from Afghanistan itself and from the wider problems that lie behind the terror. Third, a clear declaration of intent, by a man and an administration that have already showed that they mean business (in a non-Enron way), could have a salutary, chilling effect on rogues and malefactors everywhere. It will not be enough, but it is a welcome start.

It brings vices, too, however. One is simply integral to the task: that, by undertaking this project, America will undoubtedly make itself a continued target for terrorism and for criticism. Though they and their associates have suffered heavy blows in Afghanistan, militant Islamists are certain to carry on their fight (see article). The *jihad* may take a different form, quite probably one of attacks on American bases and operations overseas—which the engagement promised this week will extend in both geography and time. By switching attention to countries rather than just terrorists, President Bush was also raising the stakes in other ways (see article). Until now, Iran had been a semi-ally in the fight in Afghanistan. China, acquiescent in America's efforts, will raise its eyebrows at the mention of North Korea, of which it is, in an admittedly awkward fashion, an ally. No one will have been surprised at the mention of Iraq, least of all Saddam Hussein, but many will wonder what America actually plans to do.

The other vice—or, at least, hazard—lies with those “non-negotiable demands” about values. The list was impressive, and no westerner could disagree with the gist of it: “the rule of law...respect for women...private property...free speech...equal justice...religious tolerance.” The aim is admirable. The application will be harder. It will be harder because so many countries around the world do disagree with it, including many that now play host to American bases or are acting as allies: Saudi Arabia, Pakistan, Kuwait, Uzbekistan, to name but a few. It will be harder also, though, if the list comes to be a rigid indicator of who must be an ally and who an enemy. Alas, democracies that follow these values are also capable, on occasion, of being in the wrong and even of committing atrocities. The danger that President Bush might take too rigid an approach, with a ruinous effect on his other foreign-policy goals, is particularly acute in the Middle East (see article).

If America is to achieve these ambitious and worthy goals, it is going to need help

And there is another task. If America is to achieve these ambitious and worthy goals, it is going to need help. Plainly, it does not need military help; its European allies should be feeling shamed by the technological and practical prowess it has shown in Afghanistan. But it will need help with much else: sanctions, financial controls, diplomatic persuasion, the enforcement of anti-proliferation measures, police work, intelligence. However fine its values and just its cause, it will need to nurture the support of others. That support is more fragile than it should be, but also America seems less conscious than it needs to be of the importance of maintaining it. To fight an axis of evil, even a superpower needs an axis of its own.

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America, Israel and the Palestinians

The dangers of leaving it to Sharon

Jan 31st 2002
From The Economist print edition

America should intervene quickly, and neutrally, in the Israeli-Palestinian mess

AP

DECLARING himself “disappointed”, George Bush is on the brink of casting Yasser Arafat to the wolves. The president has reason to feel fed up with somebody who either cannot or will not control his men of violence. But President Bush should ask himself three questions. Are the wolves who want to gobble up Mr Arafat, in this case the hardliners in Ariel Sharon's government, motivated by the desire for a political solution, or the reverse? Would Mr Arafat's disappearance lead to less violence, or more? Above all, what will be the repercussions in the wider Arab world if the United States is found guilty of aiding and abetting Israel in the devastation of the Palestinian entity?

The last straw for the Americans seems to have been the evidence that Mr Arafat, or at least men close to him, have been involved in an attempt to smuggle arms. Mr Bush has reproached him for “enhancing terror”, and American officials have hinted that diplomatic relations with his Palestinian Authority may be cut. Mr Arafat is already about as isolated as he can be. He is imprisoned in his Ramallah office by Israeli tanks, the Americans refuse to talk to him, and there is no sign of Anthony Zinni, America's special envoy, returning to the region. The Palestinians plead for his mediation to be renewed but the Americans, these days, stonily repeat Mr Sharon's mantra that, first, there has to be an end to all Palestinian violence.

The administration's position is that Israel is justified in whatever it is doing in order to force Mr Arafat to bring his people to heel. But is this the Israelis' aim? They have written Mr Arafat off, both as irrelevant and as a terrorist, and now have him confined to his quarters. It is more plausible to believe that Mr Sharon's real intention is to do away with the Palestinian leader and, more important, with what remains of the Oslo peace process. When Mr Arafat did, in mid-December, demand with some success that his people should desist from violence, the Israelis did not attempt to build on this ceasefire call. On the contrary, they undermined it. The last thing that Mr Sharon wants is to be trapped into talking peace (and settlements) with Mr Arafat. He wants him out of the way and, with him, what remains of the territories' centralised authority.

Israel's unity government may still be held back by Labour's commitment to the aims of the peace process. But the prime minister and other hardliners have made it all too plain that they want no further negotiations with the Palestinian Authority. Determined to avoid the concessions implicit in the peace process, they look to future dealings with local leaders on an ad hoc basis that would leave Israel in overall control of the West Bank, and perhaps Gaza too.

Mr Arafat's exit might indeed be followed by power devolving to local groups. As we report (see article), no single successor is waiting in the wings. Those who have returned to Palestine from exile have little standing: they could be given titles but, lacking room for manoeuvre, they would be unable to lead their people away from the popular common denominator. Though Mr Arafat has been a bad administrator and worse negotiator, he remains unsurpassed at representing his people's aspirations—and is probably the only one who might, just might, persuade them to do something they do not like.

Nor would any of the possible contenders want the job. Palestinians have grumbled, with reason, at the corruption and autocracy of their rulers. But nobody wants to see Mr Arafat kicked aside by Israel. That, too, would undo the local leaders whom the Israelis now talk of as possible interlocutors. They would soon be written off as traitors, as happened some 20 years ago when Israel last tried to create its own

yes-men. The locals who do carry weight are the militia leaders, from the new-found coalition of Fatah and Hamas. And would they work for a Sharon-imposed peace? Like hell, they would.

Warnings from Saudi Arabia

Until now, Arab governments have ostracised Mr Arafat in his imprisonment: he has called for support and got silence in return. Egypt, in particular, was angered by the arms shipment that the Israelis captured last month in the Red Sea. But with America's increasingly outright support for the Israeli government's behaviour, Arab regimes are growing nervous at the effect this will be having on their own people. Last weekend, a senior member of the Saudi royal family spoke out, warning the Americans that any action which destroyed the Palestinian leader would abort all hopes of a peaceful settlement—and would have serious repercussions in Saudi Arabia itself.

In a report, we analyse the condition of Islamist militancy. The radicals are lying low after their defeat in Afghanistan, but their battle is far from over. And the principal target for many remains the United States and its “client” Arab regimes. We quote the opinion of a veteran observer of political Islam that “the *jihadi* future has never been brighter.” It is also fiercely anti-American: the *New York Times* last weekend told of a Saudi intelligence survey of educated Saudis, aged between 25 and 41, which shows that in October no less than 95% of them supported Osama bin Laden's cause.

Shut up humiliatingly in his office, Mr Arafat ruminates to loyal visitors about his more glorious future as a “martyr”. The danger of an “Arab street” uprising is routinely produced as a threat to western interests and, almost as routinely, fails to materialise. But Mr Arafat's martyrdom, at the hands of Americans and Israelis operating in tandem, might be an exception to the rule. It could well prove explosive.

After the Gulf war, George Bush senior honoured his promise to his coalition partners, getting Israelis, Palestinians and other Arabs to talk peace round a table in Madrid. When George Bush junior needed Arab support for his war, say cynical Arabs, he talked of a Palestinian state and dismissed Israel's claim to be a fellow-fighter against terrorism. Now he has gone back on the lot. This may not be fair. But it summarises the bitterness many Arabs feel toward the United States. What does seem to be true is that the Middle East will burn, with American interests and even lives going up in the flames, unless the United States intervenes swiftly and much more neutrally in the conflict.

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The environment

Defending science

Jan 31st 2002
From The Economist print edition

The fury inspired by a new book is extraordinary, and raises some questions

Get article background

BJORN LOMBORG, a Danish statistician, no doubt hoped to spark controversy with his book, “The Skeptical Environmentalist”—an attack on “the litany”, as he calls it, of bogus doom and gloom about the state of the planet. He has not been ignored, which is probably an author's worst fate, but he may be wishing he had been. The response to the book in many quarters has been apoplectic. Mr Lomborg is being called a liar, a fraud and worse. People are refusing to share a platform with him. He turns up in Oxford to talk about his book, and the author (it is claimed) of a forthcoming study on climate change throws a pie in his face.

The Economist is not a neutral in all this. Before Mr Lomborg published “The Skeptical Environmentalist”, we ran a signed essay by him which gave a summary. Later we reviewed his book in glowing terms. What has inspired the subsequent fury? Mr Lomborg argues that the environment is not in nearly such bad shape as green activists and their dupes in the media would have the public believe; that technology is improving lives across most of the planet; that western civilisation is environmentally sustainable; and that the Kyoto agreement on carbon emissions is bad policy as it stands.

How dare he say that?

Mr Lomborg defends these positions on the basis of official data and published science. Environmentalists typically use the same sources, but, as Mr Lomborg lays bare, are much less scrupulous about setting short runs of data in their long-term context, for instance, or about quoting ranges of data, where that is appropriate, rather than whatever extreme of any given range best suits their case. Mr Lomborg diligently piles on the footnotes (2,930 of them) so there is no dispute about where his numbers have come from. His claims, of course, could still be true or false. They are largely true, in our opinion. But what is strangest in all this fuss is the idea that simply by making them he has put himself far beyond the pale of respectable discourse, as so many of his critics appear to believe.

Mr Lomborg, it is important to note, does not say that all is well with the world. And *The Economist* for that matter does not say that Mr Lomborg is right about every issue he addresses. Environmental policy involves uncertainty, as Mr Lomborg emphasises; now and then this raises doubts that deserve more attention than he gives them (see article). We do believe, however, that he is right on his main points, that his critique of much green activism and its reporting in the media is just, and, above all, that where there is room for disagreement, Mr Lomborg invites and facilitates discussion, rather than seeking to silence it. The same cannot be said for many of his critics.

The January issue of *Scientific American* devoted many pages to a series of articles trashing “The Skeptical Environmentalist”. The authors, all supporters of the green movement, were strong on contempt and sneering, but weak on substance. The arresting thing about *Scientific American*'s coverage, however, was not this barrage of ineffective rejoinders but the editor's notion of what was going on: “Science defends itself against the Skeptical Environmentalist,” he announced.

That is amazing. Mr Lomborg's targets are green scare-mongers and their credulous servants in the media. He uses the findings of scientists to press his

How can using

case. How can using science to criticise the Kyoto agreement, to show that the world's forests are not disappearing, to demonstrate that the planet's supplies of energy and food will suffice indefinitely, and the rest, constitute an attack on *science*? If that is so, the scholars whose work supports those positions are presumably attacking science too, and had better stand in line for a pie in the face.

science to show that the world's forests are not disappearing, and the rest, constitute an attack on *science*?

More is at stake here than a row about a book or the judgment of a magazine editor. Many of Mr Lomborg's critics are respected scientists. Some seem to think that Mr Lomborg's lack of training in their fields disqualifies him from debating environmental policy. E.O. Wilson, one of the world's most distinguished scientists, and a dedicated green, deplores “the Lomborg scam” because of “the extraordinary amount of scientific talent that has to be expended to combat [him] in the media...[Mr Lomborg and his kind] are the parasite load on scholars who earn success through the slow process of peer review and approval.” That would be wrong even if all scientists shared Mr Wilson's fear that the world will become a “hellish place to exist”, which they do not. Environmental policy involves politics and economics, compromises and trade-offs, a division of burdens geographically and over time. It could not be left to scientists, even if they agreed on the science. We parasites would even then be right to insist on having our say.

Leeches of the world, unite

Mr Wilson's insufferable arrogance is bad enough, but there's worse. The fuss over Mr Lomborg highlights an attitude among some media-conscious scientists that militates not just against good policy but against the truth. Stephen Schneider, one of *Scientific American*'s anti-Lomborgians, spoke we suspect not just for himself when he told *Discover* in 1989: “[We] are not just scientists but human beings as well. And like most people we'd like to see the world a better place...To do that we need to get some broad-based support, to capture the public's imagination. That, of course, entails getting loads of media coverage. So we have to offer up scary scenarios, make simplified, dramatic statements, and make little mention of any doubts we might have...Each of us has to decide what the right balance is between being effective and being honest.” In other words, save science for other scientists, in peer-reviewed journals and other sanctified places. In public, strike a balance between telling the truth and telling necessary lies.

Science needs no defending from Mr Lomborg. It may very well need defending from champions like Mr Schneider.

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Zimbabwe

Helping Zimbabweans free themselves

Jan 31st 2002
From The Economist print edition

Outsiders can help, though in the end it is up to Zimbabweans to free themselves

Reuters

Get article background

SANCTIONS rarely topple despots. Cuba has endured an American trade embargo for longer than most Cubans have been alive, but Fidel Castro is still in power. Saddam Hussein, too, is still armed, dangerous and in charge of Iraq. So what hope is there that the threat of a gentle slapping by the European Union will persuade Robert Mugabe to allow a free and fair presidential election in Zimbabwe next month?

None, of course. But the EU's proposed “smart” sanctions could still do some good. If Mr Mugabe refuses to allow European monitors into his country this weekend, he, his cronies and their families will be barred from travelling to Europe. Their offshore assets, if they can be traced, which the British government believes is possible, will be frozen.

None of this is likely to make Mr Mugabe quake in his silk pyjamas, so it is tempting to argue for much tougher measures. Perhaps the world should stop trading with Zimbabwe, or South Africa should cut off its electricity? No. Such broad sanctions would hurt Zimbabwe's poor and productive citizens, not the rich parasites who rule them. Zimbabwe is already sliding into mayhem, and needs no further shoves. On the contrary, with perhaps 500,000 people on the verge of starvation, the country needs food aid. Despite the risk that some will be stolen by Mr Mugabe's thugs, donors should give more.

It is hard to persuade Mr Mugabe to behave, because he knows that, if he gives the voters a chance, they will boot him out. Without an army to protect him and a printing press with which to pay his soldiers' salaries, he fears he may lose his liberty, perhaps even his life. So he tells his thugs to whip dissidents' backs with barbed-wire flails and threaten voters with civil war if they back his opponent, Morgan Tsvangirai.

Although outsiders may have limited influence, they are not completely powerless. First, they may be able to promote splits in the ruling party, ZANU-PF. Such splits have grown increasingly visible in recent weeks. A bill aimed at criminalising independent journalism has been delayed by ZANU members of parliament, who (correctly) deem it unconstitutional (see article). In the past, Mr Mugabe has always stifled dissent within his own party as ruthlessly as he has dealt with the opposition. But as the shops run out of maize meal and young militiamen pull suspected opposition supporters off buses to burn their identity documents and the soles of their feet, some of Mr Mugabe's senior comrades are losing faith in their leader. The threat of having their offshore bank accounts frozen may give them another incentive to stand up to him.

Second, Mr Mugabe may be more responsive to pressure from some quarters than from others. Last September, when Nigeria brokered a land-resettlement deal for Zimbabwe, involving among others South Africa, it was said that other Africans were at last getting serious about the damage Mr Mugabe was doing to the entire continent. Since Africa's leading governments were at the same time trying to present themselves as responsible outfits that were genuinely trying to put their own houses in order, this was welcomed abroad. But despite several meetings since then, and despite the situation in Zimbabwe going from awful to ghastly, African heads of government have signally failed to issue any concerted condemnation, let alone any programme of sanctions. They still could.

Record the rigging

Lastly, sanctions—those proposed by the EU are, alas, the only ones likely to be imposed—may also persuade Mr Mugabe to allow more independent journalists and observers to watch the election than he otherwise would. He will still cheat, and he will certainly try to obstruct the outsiders' view of his skulduggery. But the more eyes are on Zimbabwe in the next five weeks, the better documented his cheating will be, and the harder it will be for him to claim that he has won.

If he rigs the ballot too blatantly, Zimbabwe's largest cities, where he has little support, may explode. Mr Mugabe could be toppled by street protests, as happened to Slobodan Milosevic in Serbia. On the other hand, if the army stays loyal, African Unity Square in Harare may become another Tiananmen. The top brass, some of whom owe their corrupt fortunes to Mr Mugabe's patronage, are probably loyal: the army chief recently hinted that he would never let Mr Tsvangirai become president. But no one knows whether ordinary soldiers, if ordered to fire on unarmed demonstrators, would obey. Outsiders, especially countries like South Africa, should be prepared to help if Zimbabwe implodes. But in the end it will be up to the Zimbabweans themselves to shake off their shackles.

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Letters

Jan 31st 2002
From The Economist print edition

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Pakistan's militants

SIR – Your disingenuous suggestion that the "Islamists" grew up in the time of "weak and corrupt civilian governments" glosses over the root cause of most of Pakistan's ills virtually since its inception ("The saving of Pakistan?", January 19th). On whatever Pakistan's army chooses to see, unilaterally, as its turf, none other shall tread, least of all civilian (a word in military parlance in Pakistan that must be prefaced by the word "bloody") government.

Militant Islamism as an instrument of both domestic and foreign policy in Pakistan was created, fed and pampered by the army. As is now mercifully evident, this bogeyman, periodically held up to the West as a bargaining chip by the army, was and is firmly under its control and is not the runaway beast many of us in Pakistan have for some years feared it to be.

I am astounded by your applause for Mr Musharraf for not using recent world events as a platform for delaying the restoration of democracy. That he has no intention of stepping down as president after the restoration of democracy is an open secret in Pakistan. I suppose he and *The Economist* will agree that a system where a self-appointed dictator sits atop and calls the shots over a notionally democratic country can henceforth be dubbed "democracy Pakistani style". Pakistan has little hope of being saved until such time as the army, the largest consumer of the country's revenues, its biggest land grabber and not least the wrecker of virtually all institutions, is brought firmly under the sway of a representative government.

Sher Ali Khan
Hoti Mardan, Pakistan

Rating Enron

SIR – Your article on Enron oversimplifies the issue of footnotes and special purpose entities (SPEs) ("The twister hits", January 19th). Standard & Poor's Enron rating, like all our ratings, was built on a contractual obligation that Standard & Poor's be provided with full and accurate disclosure of all relevant information including SPEs which, as you point out, was apparently not the case with Enron.

Leo O'Neill
President, Standard & Poor's
New York

SIR – The "revolving door" practice of hiring, into highly lucrative and senior positions, accountants who have previously worked on auditing that same company is a huge problem ("The real scandal", January 19th). The possible expectation of this creates an enormous conflict of interest that no regulation, except an outright and permanent ban, can possibly overcome. Auditors should be prohibited from going to work for a company (or any related company) that they have audited.

Richard Royston
Chicago

SIR – Given that Harvey Pitt, the chairman of the Securities and Exchange Commission appointed by President George Bush, has a history of lobbying for looser accounting standards, entrusting him with overseeing accounting reform is like asking a vampire to guard the blood bank.

Michael McGuire
St Croix, US Virgin Islands

Sanctions and Iraq

SIR – The Iraqi regime has clearly made its survival a higher priority than it has made enhancement of national well being ("Unfinished business", December 8th). Still, I challenge you to substantiate the charge that the Iraqi government has purposely exacerbated the humanitarian crisis by "refusing to order medicines and food Iraqi children need". The Iraqi regime regards the food ration as the main carrot in its arsenal of carrots and sticks, and subsidised it out of its "own" funds for six years before "oil for food" began.

The charge also misunderstands the nature of Iraq's humanitarian crisis. Tun Myat, the UN's humanitarian co-ordinator, explained recently that the "biggest killer of children is not lack of food or medicine but of water and sanitation." More basically, you misread the UN's sanctions-reform proposals. The most recent Security Council resolution makes no further demands on Iraq's neighbours, nor will it "minimise collateral damage to the civilian economy." The reformed sanctions will still prevent non-oil exports and most financial transactions, including the foreign investment that Iraq desperately needs. As the largest constraint on Iraq's humanitarian situation is probably income, the new proposals may not, in fact, lead to much humanitarian improvement.

Colin Rowat
Birmingham

Britain's track record...

SIR – Your article on Britain's railways omits mention of the size of the public subsidies that railways get in France and Germany, or any consideration of the subsidies received by competing modes of transport (for example, roads free at point of use) ("Come back, Dr Beeching", January 19th). Using your arguments we should close down the motorway network and every road in rural Scotland. There are wider benefits to the railway, such as social inclusion, to justify the existence of branch lines.

Probably the biggest explanation for the current mess is an obsession with safety, that is way beyond what is ever expected on the roads. This diverts resources from network enhancement or lower fares, which would do more to save lives overall than any investment in the train protection and warning system. Let us have a bit more of a balanced and wider-looking argument.

Shaun Butcher
Beckenham, Kent

SIR – Your report on Britain's railways contains a number of errors. First, the shiny new express train on the front cover of the Strategic Rail Authority "plan" is a Gatwick Express Class 460 and does not tilt. Second, far from being one of Europe's largest networks Britain's is only about half the size of France's and roughly the same size as that of Italy. You have confused track miles with route miles. Third, the report claims that commuter fares have increased rapidly in recent years. In fact, commuter fares are heavily regulated. Most fares are now lower in real terms than they were at privatisation.

Despite this your analysis is quite correct: Britain's regional railways are a huge burden on what would otherwise be a profitable industry. The best solution would be either to close them down entirely or allow local governments to subsidise them.

Patrick Crozier
Twickenham, Middlesex

...and America's

SIR – You claim that it takes 61 hours to travel between Salt Lake City and Albuquerque by rail ("Fender bender", January 12th). This is a ludicrous example. There is not and never has been a railway line between the two cities. The 61-hour journey time you report involves travelling east from Salt Lake City almost to Chicago and then switching to another train to backtrack west to Albuquerque, 2,616 miles altogether.

Two cities that are actually linked by train, Chicago and Denver, are 1,038 miles apart. The train leaves Chicago at 2.45pm and arrives at Denver at 8.40am. It has excellent sleeping, dining and lounge carriages.

Richard Purser
Calgary

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Weapons proliferation

Know thine enemy

Jan 31st 2002
From The Economist print edition

Who's who in the mass-destruction business

“AN AXIS of evil, arming to threaten the peace of the world.” Thus President George Bush, this week, in his state-of-the-union address to Congress, describing America's expanded view of its enemies. Over recent weeks, the global war on terrorism has broadened to become a war on both terrorism and weapons of mass destruction. The objective, Mr Bush explained, is to “prevent regimes that sponsor terror from threatening America, or our friends and allies” with nuclear, chemical and biological weapons.

The president has made this point before. “Rogue states”, he told the United Nations General Assembly in December, are also “the most likely sources of chemical and biological and nuclear weapons for terrorists.” This week, by picking out three of the worst offenders against global anti-proliferation norms, North Korea, Iran and Iraq, he seemed to signal that some sort of action—whether diplomatic, economic or military—was soon to come. “I will not wait on events while dangers gather,” he said. “I will not stand by as peril draws closer and closer.”

Just a ruse to justify settling old scores with Iraq, which has long defied United Nations efforts to strip it of its illicit weapons of mass destruction? Or a ploy to help justify Mr Bush's decision to scrap the Anti-Ballistic Missile Treaty with Russia and build new missile defences? To many a seasoned anti-proliferation warrior, the president was simply stating the obvious: in a world of terrorism without constraint, tackling the proliferation of nuclear, chemical and biological weapons is just as urgent as ripping up the terrorist networks that might seek to make use of them.

As in any war, it helps to know the enemy. There are more than three of them. In a report published just before the Bush administration came into office, America's then secretary of defence, William Cohen, picked out “at least 25” countries that either possess, or are trying to develop, weapons of mass destruction or the means to deliver them. Since chemical and biological weapons are outlawed, and the Nuclear Non-Proliferation Treaty (NPT) allows for only five official nuclear powers—the United States, Russia, China, Britain and France—plenty of governments are clearly up to no good.

Particularly troubling, however, are the seven countries long fingered by the State Department as sponsors of international terrorism: Iran, Iraq, Syria, Libya, Cuba, North Korea and Sudan. All but Iraq publicly condemned last September's assault on America. But as Mr Cohen's successor, Donald Rumsfeld, has argued, “It doesn't take a leap of imagination” to see the dangers in a list of regimes both so fundamentally unfriendly, and so keen to have the worst kind of weapons.

Concealing the stocks

Whether or not it finds itself an American target—for now, at least, the emphasis is on diplomacy—**Iraq** tops everyone's proliferation worry league. One reason is the sheer scale of its past clandestine weapons programmes; another is its determination to hang on to remaining secrets, particularly biological ones, despite years of sanctions and lost oil revenues.

After the 1991 Gulf war it was discovered that Iraq's president, Saddam Hussein, had spent perhaps $10 billion over a decade pursuing different ways of producing weapons-grade fissile material. Despite solemn NPT promises, Iraq had been only months away from producing a fission bomb, and had already tested a radiological device—a “dirty bomb” designed to spread contamination over a wide area by packing radioactive material around conventional explosives. Although International Atomic Energy Agency (IAEA) inspectors tracked down the key parts of this nuclear programme, the pool of trained scientists remains and Iraq has continued to try to procure weapons-related nuclear equipment on the black market. Left to its own devices, it would need only a few years to produce enough weapons-grade material for a fission bomb, and even less time if it found a willing supplier.

By now Iraq has had time, too, to rebuild the vast chemical-weapon stocks that the inspectors destroyed. When they left, three years ago, the inspectors were convinced that Iraq was still concealing the true scale of its production and weaponisation of VX, a potent nerve gas. It has also hung on to key elements of its biological programme, failing to account for a whopping 17 tonnes of biological growth medium. In the past it has produced a whole range of potent biological agents and toxins, including anthrax (using strains originally ordered from American germ banks) and botulinum toxin. Some of these it loaded into warheads and bombs before the Gulf war. It has experimented with the camelpox virus and it may also have the smallpox virus, a formidable killer.

A recent Iraqi defector, a civil engineer, described how he worked on nuclear, chemical and biological facilities concealed underground, sometimes under private houses and hospitals. He claims that equipment bought with UN approval has sometimes been turned over to the secret weapons programme, though that is hard to verify. Iraqi technicians are also thought to have continued working secretly on, and trying to buy parts for, longer-range missiles than are allowed under UN resolutions.

Although **Iran** signed the Chemical Weapons Convention (CWC) in 1997, it has declared no weapon stocks or production facilities. It is believed to have had both since at least the 1980s, when it was at war with Iraq. According to the Monterey Centre for Nonproliferation Studies, these include cyanogen chloride, phosgene and mustard gas, and some nerve agents. In November, at an acrimonious review of the Biological Weapons Convention (BWC), America publicly accused Iran (alongside Iraq and North Korea) of having illegally produced biological agents and turned them into weapons.

The greatest concern is over Iran's nuclear and missile ambitions. With Russian help, it is building civilian nuclear-power reactors that western intelligence officials fear could mask a clandestine weapons programme. Iran barely disguises its nuclear ambitions, and has shown a keen interest in the uranium-enrichment technology required for weapons-making.

Iran's declared nuclear facilities are all under IAEA safeguards, as required by the NPT. But like many countries, it has yet to submit to new checks that can pick up clandestine activity more effectively. The more Iran learns from its Russian helpers, the greater the danger that it could some day attempt a sudden break-out from the NPT, which requires only three months' notice of withdrawal.

Some Russian missile specialists helping Iran are sniffy about its technological prowess. Opinions in America's intelligence community are also divided, but a recent CIA-sponsored national intelligence assessment again predicted (over State Department dissent, it was said) that before 2015, Iran, along with North Korea and possibly Iraq, could have missiles capable of hitting the United States.

So far Iran has the 1,300km Shahab-3 medium-range missile, a liquid-fuelled rocket which relies extensively on outside help from Russian firms for guidance technology and from North Korea for rocket engines. Work has begun, this time with Chinese help on a different guidance mechanism, on a solid-fuelled version with a slightly longer range. It is not yet clear whether Iran has decided to move into the intercontinental-range missile business. If Russia and China were to clamp down on firms providing technology and equipment, as promised, the missile programme would slow considerably. But Iran itself may be offering missile help to others, notably Syria and Libya.

Salesman to the world

Third, but by no means least, of this most troublesome trio, **North Korea** was caught out by the IAEA in 1992 producing more plutonium, from which nuclear weapons can be made, than it had owned up to. After a face-off, the regime in 1994 signed a framework agreement with the United States that froze (and should eventually dismantle) its plutonium production in return for a promise of two western-designed, less proliferation-prone reactors and interim supplies of heavy fuel oil. The first reactor was meant to start working next year, but North Korea's threatening behaviour, and the difficulties of talking to a hermit regime, have delayed the project by at least five years. Further delay is inevitable unless North Korea starts to honour its obligation to let inspectors delve into its past plutonium dabbling. Periodically, North Korea threatens to abandon the 1994 deal. It may already have enough material for at least a couple of bombs.

North Korea has not signed the CWC and, according to both American and Russian estimates, possesses large stocks of chemical weapons and their precursors, as well as nerve agents such as sarin and VX. It joined the BWC in 1987, but Russia's Foreign Intelligence Service has reported that it has a well-developed biological weapons research programme and has experimented with anthrax, cholera, plague and smallpox. America's Defence Department thinks some of these horrors may have been made into usable weapons.

North Korea's missile programme has literally come a long way. It now deploys and sells the 1,300km Nodong missile. And it alarmed the world in August 1998 by firing off a three-stage longer-range Taepodong-1 rocket, which it claimed was a satellite launcher but which America concluded was a ballistic missile. Although it has declared a moratorium on testing until 2003, it is also working on a Taepodong-2 which, it is feared, may be able to reach parts of the United States with a nuclear-sized warhead.

Desperate for hard currency to prop up its sickly regime, North Korea has demanded $1 billion a year from America to end its destabilising missile sales to countries such as Iran, Syria, Libya, Egypt and Pakistan. That demand was reportedly knocked down by the Clinton administration to a series of satellite launches and some food aid, but the potential deal still lacked a key component—how to verify that North Korea was honouring the bargain—when the Clinton team ran out of time. So missile sales still flourish. And while North Korea may have held off further flight tests, there are worries that Pakistan, Iran, Egypt and others working with it on missile development may be chipping in valuable data (and in Pakistan's case, possibly even nuclear tips too?).

Of the other miscreants on the State Department's list, **Cuba** remains outside the NPT, **Libya** and **Syria** are among the few states that have not signed the CWC (though Egypt is another, and Libya has said it will do so soon), and **Sudan** remains outside the BWC. Libya and, less energetically, Syria have both flirted with nuclear research; these two, plus Sudan, have biological research programmes; all are thought to have chemical weapons. Libya especially shows ever keener interest in developing ballistic missiles (in co-operation with North Korea, after previously working with Serbia and Iraq) with ranges that could threaten Israel and also parts of Europe.

Officially, more friendly regimes can pose a proliferation problem too. **Egypt** has stockpiled chemical weapons, may be developing biological weapons and has shown an interest in nuclear research that could be useful in a weapons programme. Its recent co-operation with North Korea on missile development follows previous work on a joint programme with Argentina and Iraq.

In the 1980s **Saudi Arabia** bought a number of medium-range missiles from China. It makes no sense to invest in expensive and far-flying rockets, unless they pack a big punch. The Saudis may have acquired chemical warheads, but senior officials have also visited Pakistan's missile and nuclear facilities.

For its part, **Israel** remains outside the NPT (although it has signed the Comprehensive Test-Ban Treaty), and is thought to have a stockpile of perhaps 200 or so nuclear weapons. It has signed the CWC, but not the BWC, and like many others would have the capability to produce both chemical and biological weapons. It holds such secrets close, but has been less tight with its missile know-how: ironically, the accuracy of the missiles China sold to Saudi Arabia in the 1980s, which can threaten Israel, had earlier been improved with Israeli help.

Both **India** and **Pakistan** publicly blasted their way across the nuclear threshold in 1998 but are more coy about the warheads they possess. Recent estimates by the Institute for Science and International

Security are that India could have built up to 95 and Pakistan over 50, though both may well have fewer.

Pakistan is the greater proliferation concern, partly because its export controls are far more primitive than India's and partly because of suspicions that, one way or another, it could be helping possible bomb-seekers, such as the Saudis and North Koreans. There are concerns too about the loyalties of some of its scientists: two retired nuclear scientists have admitted to supposedly “academic” discussions with Osama bin Laden about nuclear, chemical and biological weapons. Pakistan's instability means that its nuclear stockpile may not be physically secure.

Having long denied that it had chemical weapon stocks, India reversed itself on joining the CWC in 1996, and is now obliged to destroy them. Pakistan is also a member, but has declared no such weapons. Both countries have signed the BWC, though both are thought to have military research programmes. They may also be tempted to hawk their military expertise about for profit. Both have new medium-range missiles. India's 2,000km Agni is said to be nearly ready for deployment, and its space-launch programme could be adapted to build intercontinental-range missiles; Pakistan has the 1,300km Ghauri, and is working on an Agni-matching Shaheen-2. India has had plenty of help over the years from Russia; Pakistan has had help from China and, now, North Korea.

The proliferation threat itself is changing in troubling ways. Smaller countries that yearned to be nuclear, such as Iran, Pakistan, North Korea and Libya, once depended entirely on help from a big-power sponsor, such as Russia or China, or a blind eye from America. Now they are increasingly developing technology ties to each other and pooling expertise. Such secondary supplier-chains make tracking, let alone blocking, proliferation much more difficult.

Careless friends

Meanwhile, export controls need tightening up all round. Although companies in Russia, China and North Korea have long been armourers-in-chief to some of the world's dodgier regimes, over the years America's friends have contributed to the danger. Plenty of European dual-use goods, as well as American ones, have ended up in clandestine military programmes overseas. Indeed, the black market for weapons technology, materials and know-how, like Mr bin Laden's terrorist network, has gone global—a fact that both he, and those governments anxious to get their hands on forbidden materials and technologies, have long sought to exploit.

Most attention over the past decade has focused on stemming the potential leakage of materials and disgruntled scientists from the former Soviet Union's sprawling weapons complexes. America now spends about $1 billion a year to that end. But the problem goes much wider. One of the original sponsors of the threat-reduction programme for Russia, Senator Richard Lugar, now calls for similar action on a global scale. “Every nation that has weapons and materials of mass destruction must account for what it has,” he argues. Then, he says, it must safely secure it, and pledge that “no other nation, cell or cause” will be allowed to get near it.

As yet, there is no evidence that any state on America's list was deliberately feeding al-Qaeda's weapons habit. Yet whatever Mr bin Laden had been secretly working on, he needed to filch materials and expertise from government-run weapons laboratories around the world. Not all such leaks can be plugged. Testimony from the trial in New York of four bin Laden operatives convicted for the 1998 bombing of America's embassies in Kenya and Tanzania included the admission that al-Qaeda had been shopping around for uranium, in this case from South Africa. Mr bin Laden may eventually have succeeded in his quest: reports and documents from Afghanistan suggest he may have acquired enough material, possibly via associates in the radical Islamic Movement of Uzbekistan, to make a radiological device.

Clearly, the wider such nuclear, chemical and biological know-how spreads, the greater the danger that such weapons will one day be brandished by someone. All the non-proliferation treaties, bar the one for biological weapons, have compliance mechanisms. The Bush team has signalled that it will make greater use of these to investigate suspicious activity.

And then? Military force will not always be the ideal weapon for the anti-proliferation battleground. Iraq's nuclear and unconventional-weapons programmes were set back a bit by

bombing in 1981 and 1998 respectively, but it is still in both businesses. When it comes to curbing such weapons, prevention—through patient diplomacy, export controls and painstaking intelligence work—is more cost-effective than a cure.

In some cases it has worked. Plenty of countries that are capable of building nuclear, chemical and biological weapons have not done so, or else have abandoned past programmes. Yet others have no intention of doing so. Defeating proliferation will be no easier than defeating terrorism. In this war, too, no end is in sight.

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The state of the union

The creaking of the logs

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From The Economist print edition

EPA

George Bush's state-of-the-union speech may help to reshape America's domestic politics almost as much as it hopes to reshape the world

THE roaring sound that greeted President's Bush's state-of-the-union speech in the hall of Congress was not just applause: it may have been the noise of America's political logjam moving. Since Mr Bush was elected in a tied vote, America has been “the 50:50 nation”. In terms of voting patterns, the balance of power in Congress and the two parties' influence on the legislative agenda, there has been stalemate. And that has remained so despite an unprecedented rise in public trust in government in the wake of September 11th.

Even before the state-of-the-union, the logjam was beginning to shift a little. The movement now apparently underway does not guarantee that one side will emerge with a decisive electoral advantage; still less does it ensure that George Bush will become a “transformational” president in the mould of, say, Teddy or Franklin Roosevelt. But such lofty ambitions are now possible.

In retrospect, one of the first signs of change was Mr Bush's own phenomenal personal popularity. In the aftermath of the attacks of September 11th, over 90% of those polled expressed a favourable opinion of his presidency. On some measures, that was the highest level of popularity ever recorded for any president.

Conventional wisdom holds that this has little long-term significance. Mr Bush's father showed how quickly such ratings can fall: winning the war is of no consequence if you then “lose” the recession. Similarly, the personal popularity of a president does not necessarily translate into support for his party.

But there are now signs that these nostrums may be wrong. Look at the polls. The surge in Mr Bush's popularity has not yet broken the longevity record set by his father (see table). But his high rating has already lasted 20 weeks at very high levels. At this stage, five months after a crisis, Mr Bush is the most popular president ever. And there are also signs of a wider change.

With one bounce, he was free

Rallies greater than 10 percentage points

President	Event	Approval rating before event	Approval rating after event	Rally	Duration, weeks
Roosevelt	Pearl Harbour (Dec 1941)	72	84	+12	30
Truman	Truman doctrine (Mar 1947)	48	60	+12	36
Kennedy	Cuban missile crisis (Nov 1962)	61	74	+13	31
Johnson	Halts bombing of North Vietnam (Mar 1968)	36	50	+14	19
Nixon	Vietnam peace agreement (Jan 1973)	51	67	+16	15
Carter	Hostages seized in Iran (Nov 1979)	38	51	+13	16
Bush, senior	Desert Storm begins (Jan 1991)	64	82	+18	41
Clinton	Impeachment (Dec 1998)	63	73	+10	12
Bush, junior	Terrorist bombing (Sep 2001)	51	86	+35	20*

Source: Gallup

* To date

A stack of recent polls show big increases in the number of voters who look more favourably on Republicans than on Democrats. In one *Washington Post* survey the generic Republican vote is seven points ahead of the Democratic one for this year's mid-term election—the largest such lead this poll has recorded since it began in 1981. Another measure shows that more Americans now identify themselves as Republicans (40%) than as Democrats (35%), again for the first time in modern history. This could be just a post-September 11th blip, but the decline in Democratic identification has been in train for decades. If America's tectonic plates really are shifting, the Republicans may do better at the mid-term elections than anyone (including *The Economist*) had expected.

What about the notion that winning a war does not necessarily help a president in a recession? The war on terror, which has already cost thousands of American lives, will surely have a greater domestic impact than the Gulf war. Mr Bush has cast the struggle as a moral conflict in a way his father could not do with the Gulf war, mentioning the word “evil” five times in his speech. Mr Bush could lose support rapidly if things go badly, but he has also made sure that any victory will not be a passing one, as in the Gulf war. In his speech, he defined the war broadly, without mentioning Osama bin Laden by name; and he stressed that the battle may last for generations. “This campaign may not be finished on our watch.”

And if the war is different, so is the recession. This time, unlike in 1991, the recession may prove almost invisible (see article). Regardless of the statistics, the slowdown began only months after Mr Bush took office. Few Americans blame him for the recession. They might still blame him for blowing the budget surplus but, at least when it comes to spending, criticism is likely to be muted because most Americans want more spending on defence and “homeland security” (which Mr Bush duly promised in his speech).

A different sort of Republican

Conventional wisdom says that the best electoral tactic for Mr Bush is to switch his attention quickly from foreign to domestic affairs. Once again, the cautionary example is his father, who was accused of not doing this (and whose failure still haunts his son). Yet—against all expectations—Bush junior devoted most of his state-of-the-union speech to foreign policy. Does that mean he risks falling into his father's trap? He may have a subtler strategy.

As Bill Schneider, a commentator for CNN, points out, the president is not just asking to be trusted with domestic policies as well as foreign ones. Rather, he claims that these are two sides of the same coin. In the speech, he made the link rhetorically by appealing to Congress “to join me on these important domestic issues in the same spirit of co-operation we have applied to our war against terrorism.” And he made the link substantively by arguing that the best way to boost the economy is to restore consumer confidence by winning the war against terror.

It is far from certain that Mr Bush will persuade voters this link really exists. But the Democrats, who have been keen to separate the war, where they support Mr Bush, from the recession, where they do not, are reconsidering that view. In his response to this week's speech, the Democrats' leader in the House of Representatives, Dick Gephardt, said the two sides should not battle “toe to toe” over domestic legislation, since they stood “shoulder to shoulder” in fighting the war.

All this implies that the logjam is moving—and that it is probably breaking to

The logjam is

the Republicans' advantage. But does that mean Mr Bush can go one stage further and transform not just the political balance but the national agenda? Here, the evidence is more uncertain.

probably breaking to the Republicans' advantage

Abroad, the speech can claim to have transformed American foreign policy, focusing it on the ideological challenge of radicalised Islam, and providing it with a renewed Wilsonian moral justification. How profound this change is depends on what happens in that wider conflict, which is obviously unknowable.

But “transformational presidents” often have their biggest impact at home. Here Mr Bush said less. Even so, at the end, he outlined a socially-active conservatism akin to John McCain's when he proposed a new national-service organisation called USA Freedom Corps, to encourage citizens to give up two years for voluntary service.

Whether this will work is open to doubt: similar ideas have failed before. Whether it fleshes out Mr Bush's slogan of “compassionate conservatism” is also doubtful: that idea remains insubstantial. Yet the fact remains that Mr Bush has not given up trying to recast conservatism as something more than economic self-interest and traditional values. If he succeeds, and if he can win Republican majorities to back his ideas, he might yet become a transformational president.

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The economy

Recession? What recession?

Jan 31st 2002 | WASHINGTON, DC
From The Economist print edition

Things may be getting a little better

ONCE again the American economy has defied the pessimists. According to initial estimates published by the Commerce Department on January 30th, output actually grew during the last three months of 2001, at an annual rate of 0.2%. That is hardly strong growth, but it is better than the 1% drop most analysts had expected. If—a big if—these GDP figures are not revised downwards, America may end up having avoided one popular definition of a recession, that of two consecutive quarters of falling output.

On the same day, the Federal Reserve surprised no one by deciding to leave short-term interest rates unchanged at 1.75%. The central bank noted what many on Wall Street now take for granted: that the outlook for economic recovery had “become more promising”. (Though the central bank retained its view that the risks are weighted mainly towards economic weakness.)

Two big factors drive the current optimism about recovery: the strength of consumer spending and firms' decisions to rebuild inventories. Pessimists have long underestimated Americans' willingness to pull out their wallets, but never more so than at the end of 2001. You might have expected the September 11th terrorist attacks to prompt consumption to fall. In fact, consumer spending rose at an annual rate of 5.4%, the fastest rate for almost two years. Much of the impetus came from car sales, which rose dramatically as Americans took advantage of cheap financing deals. Spending on durable goods—including cars—was 38.4% higher on an annualised basis in the fourth quarter.

While some of that car spending was presumably plundered from this year, there are, as yet, few signs that Americans have lost their love of motoring. General Motors and Ford both say customers bought more cars and trucks in January than they expected. More broadly, consumption is sure to fall back in the first quarter of 2002, but with consumer confidence rising and labour markets stabilising, few analysts expect a rout.

Inventory restocking will also help the economy this quarter. In the three months ending in December, inventories fell at an annual rate of $120.6 billion, breaking the previous record of $61.9 billion in the third quarter. But as firms see demand holding up they will rebuild their stocks—and give economic growth a sharp boost. Although overall business investment continued to fall at the end of 2001, there were tentative signs that the investment bust may be ending. Firms bought more computer equipment, the first such rise since the last quarter of 2000. As the collapse in spending on information technology marked the beginning of the downturn, its reversal may herald the end.

A more certain bet is a further boost from the government. Uncle Sam gave the economy an unexpectedly large shot in the arm in the last quarter of 2001: government spending rose at an annual clip of 9.2%. Some of this spending—cleaning up Lower Manhattan, for instance—may be temporary. But in his state-of-the-union speech, George Bush pledged to provide the largest increase in defence spending in two decades and also to double spending on homeland security. The tap has, very definitely, been turned on.

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About sponsorship

California's governorship

Can Riordan do it?

Jan 31st 2002 | LOS ANGELES
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Maybe, if he stays a liberal Republican

AP

LA's antidote to Grayness

RICHARD RIORDAN is among friends. Alan Autry, sometime Hollywood actor and now the mayor of Fresno, is grinning from ear to sun-scorched ear as he sits beside him on the couch. All around, local Republican worthies exude the high good humour that only a couple of glasses of wine and the sight of George Bush waxing patriotic can bring on. Here in the Central Valley, where Mr Riordan has come to a supporter's house to watch the president's state-of-the-union address on television, an opinion poll taken a week earlier has found that 55% of those likely to vote in November's election would prefer Mr Riordan as the next governor of California, compared with 31% who say they would stick with the Democrats' Gray Davis.

To be sure, the farmers who run the cattle lots and lush orchards of the Central Valley are the most solid Republicans in California. But Mr Davis is rattled by the fact that Mr Riordan is also riding high in other parts of the state. The same poll found that Mr Riordan was preferred by 47% of all the likely voters next November, compared with 40% for Mr Davis; 13% are still scratching their heads. Mr Riordan is ahead even in one of the Democrats' usual strongholds, Los Angeles, where he was mayor between 1993 and 2001, and neck-and-neck with Mr Davis among women, who generally smile at Democrats.

Since Al Gore beat Mr Bush by ten percentage points in California in 2000, since the state legislature is dominated by the Democrats, and since there is only one Republican in any state-wide elected office—Bill Jones, the secretary of state—all this may seem something of a miracle. But not all of California's Republicans are delighted by what they see.

Before he can take on Mr Davis in November, Mr Riordan has to survive the Republicans' primary election on March 5th. In this he has two rivals: Mr Jones and Bill Simon, a rich businessman. Here, too, the opinion polls put Mr Riordan ahead, but with greater margins of error, and with a lot more of the voters still undecided. Mr Riordan's problem is that the very thing which could bring him victory in November—the fact that he is by Republican standards a liberal—is a liability at this first stage.

Like its fitness freaks and its technology gurus, many of California's Republicans tend to zealotry. Preferring rigour to popularity, the party's right-wingers have repeatedly scuppered its chances by turning on those within its ranks whom they deem soft on abortion or gun-control. In a state generally more liberal than the rest of the country, that can be disastrous.

Mr Riordan proclaims himself “proudly pro-choice” on abortion, and he is in favour of gun-control. That goes down well in the state at large, but it does not please his party's hardliners. As you might expect, his opponents in the primary are making the most of this. Mr Simon advertises himself as a “conservative Republican”. Mr Jones draws attention to donations that Mr Riordan has in the past given to Democratic politicians. If the turn-out in next month's primary is small, the zealots could once again defeat the pragmatists.

Keep it calm

But it is a risk Mr Riordan can probably afford to run. The courts have ruled that independents can vote in the Republican primary, as well as signed-up Republicans, and this may tilt things against the

conservatives. Mr Riordan has sought the endorsement of Republican women who disapprove of their party's previous opposition to abortion. He is also trying to avoid mud-slinging in the primary, before November's confrontation with Mr Davis. There is nothing that Mr Davis, a slightly uncharismatic but shrewd politician, likes better than being able to sit back and watch his opponents batter each other to a pulp until he can administer the *coup de grâce*. Indeed, that was the way that he won the governorship four years ago.

A sign that Mr Riordan's tactics may be working is that Mr Davis has already gone on the attack. Reckoning perhaps that Mr Jones, who has little money to pay for advertising, and Mr Simon, a relatively unknown figure, will not themselves do much damage to Mr Riordan, the governor launched a bunch of advertisements just when those worrying opinion-poll results were being published. These aimed to blur the contrast between Mr Riordan and the conservatives by drawing attention to donations Mr Riordan has made to anti-abortion groups.

But abortion is unlikely to remain the top issue for long. There is plenty of time to bring up other questions, and plenty of money on both sides to pour into the television ads that are a vital weapon in a state as large and populous as California. Pretty soon, attention is bound to turn to California's economy. Nothing has done more harm to Mr Davis's reputation than last year's electricity crisis.

The governor has tried in recent speeches to rebuild his reputation as an efficient manager. He has offered a list of his administration's achievements; he has even sought to make a virtue of his own dreary personality. Mr Riordan replies that, if he gets the governorship, he will scorn micro-management. He will use his businessman's skill at setting broad targets to get to grips with the long list of things that need doing in California, from improving its schools to building more houses. No wonder the crowd in Fresno was cheering as it watched Mr Bush—another former businessman who likes to delegate—give his speech on television. It seems to be a popular style these days.

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A priestly scandal in Boston

Better admit it

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Things it is dangerous to conceal

AP

Geoghan in the dock—at last

CARDINAL BERNARD LAW, the highest-ranking Roman Catholic prelate in the United States, was until recently perhaps Boston's most revered figure. A close associate of the pope, sought after by Bushes and Kennedys alike, Boston's archbishop seemed above reproach. Now a scandal involving one of his priests has blown a hole not only in his reputation but also, quite possibly, in the finances of the Boston archdiocese. The cardinal is being called upon to resign because of his handling of the matter, and by implication because of his attitude towards the whole subject of sexual abuse by priests.

Father John Geoghan has been accused by 130 people of molesting them when they were children, in the years between 1962 and 1995. In 1998 he was defrocked by the Vatican. Last week he was convicted of molesting a ten-year-old boy. He now faces two more criminal trials for rape.

Cardinal Law was told of the accusations against Father Geoghan in 1984, his first year in charge. Each time they cropped up, he put the priest on sick leave, and sent him to doctors for treatment before moving him to another parish. But the parishioners, let alone the police, were told nothing of what Father Geoghan had done. Cardinal Law said that his decisions, “made in good faith, were tragically wrong.”

Until recently, the archdiocese was not bound to report allegations of sexual abuse. After the scandal emerged, Cardinal Law promised to change that, to the extent of telling the authorities about future cases. This fudge was criticised by Massachusetts's attorney-general, Tom Reilly, as well as by the press. Now the archdiocese has promised to give state officials the names of every former priest accused of sexually abusing a young person.

If this list proves as lengthy as many locals fear, it will surely make it harder to raise money for the cardinal's admired anti-poverty programmes. He, and five other bishops, already face several multimillion-dollar lawsuits. In all, 84 suits have been filed in the Suffolk Superior Court. Some claim that the archdiocese could be driven into bankruptcy. But preparations may have been quietly made to deal with such crises: some recently revealed church documents show that there is a “Clergy Fund” to make payments for “special cases”, and there are rumours of an insurance policy.

Paedophile priests are nothing new, in America or other countries. Four years ago, in Texas, altar boys who had been molested by a priest and won a $23.4m settlement claimed that two bishops knew of the abuse but did nothing about it. Last summer the New York press reported that a priest accused of sexually abusing a teenager in the Bronx had been quietly transferred to another church in Staten Island. What makes the Boston case different is the explosion of outrage it has caused.

There is no evidence to suggest that celibacy turns people into paedophiles. Married men, too, can be paedophiles. But the churches—and not only the Roman Catholic one—have a tradition of trying to cover things up. Their leaders have sometimes appeared to show more concern for the abuser, and for protecting the church's reputation, than for the victims. They have, rightly, been criticised for this.

In Boston, the silence has been broken. Cardinal Law, who has done much good for the people of Boston, now has a sadly tarnished reputation. Many churchgoers feel deeply disillusioned. As Stephen Brady, head of the Roman Catholic Faithful, a pressure group, says, “It's a shame the cardinal didn't err on the

side of the children.” But an unbroken silence would have been worse.

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Professional matchmaking

McDating

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How much can you learn about someone in three minutes?

AMERICANS are always keen to do things more efficiently. So why not speed-dating? On a Tuesday night in Chicago, 50 men and 50 women have gathered at Joe's Bar for an event sponsored by FastDater. The men sit at a series of long tables, the women opposite them. A master of ceremonies tells the couples that they have exactly three minutes to dazzle one another. A bullhorn sounds and the dating begins. “Be free with your yeses!” the MC barks. “You can always dump the guy or girl later.”

The bullhorn sounds again. The men swap seats, the women stay put and a new round of three-minute dates begins. Every participant keeps a scorecard, marking each “date” as a yes or a no. FastDater will tabulate the matches and notify the participants by e-mail, a few tactful days later, of the matches and also the “missed opportunities”—cases in which you said no but the person across the table said yes.

The evening requires strategy (to elicit as much information as possible) and endurance (to do it 30 or 40 times). “Most of the time, three minutes feels too short,” says Craig Bartal, a 38-year-old computer programmer. Still, he is a fan. The movie-star good looks that might be described in a personal ad can be checked on the spot; and filling out the scorecard is easier than soliciting telephone numbers in a bar “like a car salesman”.

Besides, sometimes three minutes is quite long enough. Lisa Lombardi, the founder of FastDater and an occasional participant, recalls one such date. “I said I wanted kids. He said he had had a vasectomy. The date was over.”

Speed-dating is now popping up in plenty of American cities. Miss Lombardi copied her version of the idea from a rabbi who was organising such events for Jewish singles. She started FastDater in May 2001. It's not a bad little money-spinner. Each event has sold out. The daters pay $35 to take part. Joe's Bar donates the space (it makes a packet refuelling the speed-daters between bouts). The biggest cost is the 20 hours it takes Miss Lombardi to sort through the cards, though technology could presumably help here.

The crowd looks like the front office of any bank or insurance company, conservative and respectable. Is there a stigma associated with entrusting your social life to the dating equivalent of the Big Mac? Not one that matters, says Mr Bartal, who collected three matches, and has since been on his “best date so far” with one of them. Others disagree. “I will never admit to my mom that I'm doing this,” confesses a Belgian man who works in a Chicago suburb.

The bullhorn sounds, once again filling your smugly married correspondent, looking on from the bar, with even more conjugal bliss than usual. The participants have now been on 20 or 30 dates. During the short break, Alexandra Dreier, a software designer, admits to exhaustion, but is still enthusiastic. “There is none of the bar bullshit,” she says. “Everyone is here for the same reason, and everyone knows that they're here for the same reason.” That's what makes for an efficient market.

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Lexington

The wrong sort of wall

Jan 31st 2002
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Dick Cheney should hand over the Enron papers

Get article background

DOES the White House ever learn? Richard Nixon said that "executive privilege" should save him from having to release the Watergate tapes to congressional investigators. Ronald Reagan's underlings talked of claiming the same presidential discretion to withhold information when Congress was investigating the Iran-Contra scandal. And Bill Clinton asserted the right to privacy over both Monica Lewinsky and Whitewater. Each time the president in question, and the presidency in general, looked the worse for it. Now Dick Cheney says he will not reveal to the General Accounting Office (GAO) the contacts between his energy task-force and Enron.

The GAO first asked the White House for details about the task-force's meetings last summer, after people claimed to detect Enron's handwriting in parts of Mr Cheney's energy plan. Now that Enron, one of Mr Bush's most generous campaign contributors, has gone bankrupt, the request has been renewed. The GAO celebrated Mr Cheney's 61st birthday by deciding to sue the White House—the first time it has needed to do so to extract information from a federal official. A compromise may still be reached whereby Mr Cheney hands over the names and dates of his meetings but no details (as Mr Clinton eventually did with his health-care task-force). But for the moment both sides are digging in. Democrats are egging on the GAO, confident that anything with "Enron" attached to it will cost Mr Bush votes. Mr Cheney claims he is defending a fundamental principle: "For us to compromise...would further weaken the presidency."

In fact, Mr Cheney's principled stance looks pretty threadbare legally, and downright perverse politically. The particular principle he is talking about is the right of the executive branch to talk to people without those conversations becoming public knowledge. That is indeed a right worth defending, in most cases. How could a president's own advisers or foreign leaders talk confidentially to him, if they knew that Congress could demand the transcripts? There is also a clear difference between the legislative side of government, where transparency is vital, and the executive one, where on a wide range of issues, such as espionage and economic policy, secrecy is essential.

So the balance of the law should be on Mr Cheney's side. But it is still worth noting two things. First, contrary to the vice-president's blustering, there is no clear reference to executive privilege in the constitution. Presidents have inferred the right from passages addressing the separation of powers (though they have often been the worst offenders against it, blabbing out details of their conversations in memoirs). And second, it is not an absolute privilege. Congress also claims a constitutional principle: its right to "reasonable oversight".

Enron seems a reasonable case for that right to be exercised. Above all, the Enron business has been about transparency and accountability. With the exception of Mr Cheney's stonewalling, the Bush administration appears to have complied with most of the requests for information about Enron—particularly about its contacts with the company during its final downward spiral. It seems woefully inappropriate for Mr Bush to be preaching openness in the private sector in his state-of-the-union speech whilst battening down the hatches in the White House.

Politically, the crude calculation that "Enron + Bush = Democrat votes" has not

The crude

added up in the way that Mr Bush's opponents hoped, not least because the Democrats also took fistfuls of cash from the oil-trading firm. So far, the president's polling numbers are holding up pretty well not just generally (sky-high approval ratings for him; good ratings for Republicans) but on Enron too. According to the latest Gallup poll, people think that congressional Democrats were more swayed than Mr Bush by the oil-trading firm's contributions. The only institution which reckons that Mr Bush is on the edge of an electoral precipice is the *New York Times*, which probably says more about the *Times* than Mr Bush's prospects.

calculation that "Enron + Bush = Democrat votes" has not added up in the way that Mr Bush's opponents hoped

This explains why Mr Cheney feels so secure in snubbing the GAO (and he did it fairly well, reassuring the American people in his sternly avuncular way that these tasty morsels of information would regrettably not be very good for them). But that does not make it a clever decision. Enron may have doled out money to both parties, but if the issue is allowed to fester it will surely hurt Mr Bush more. The idea that the president may secretly be favouring his rich Texan buddies in the oil industry ties into old fears that Mr Bush is out of touch with ordinary Americans. Mr Cheney's stonewalling reinforces that suspicion. It also ensures that the story will run and run in a Clintonesque way. (Did Mr Cheney ever watch a television during the 1990s?)

Fuel to the flames

The obfuscation seems all the stranger because, on the face of it, Mr Cheney's energy plan did little to help Enron. He gave strong support for nuclear power and coal, both of which would hurt Enron's gas operations. He did not set carbon-emission limits for businesses, which Enron wanted to help its carbon-trading operation. He didn't do enough to open up access to interstate power lines, which would have made electricity trading much easier. The only area of energy policy in which the Bush administration backed the Enron line—lobbying India on behalf of Enron's power plant—hardly seems heinous; that is, alas, the sort of thing presidents often do for American companies abroad. And he was right to consult Enron in the first place: after all, it was widely hailed as the industry's most innovative company.

All in all, an otherwise rather impressive piece of political crisis-management now risks being undone by a singular expression of grouchy stubbornness. Which leaves only one question: why? Many unbiased outsiders will conclude that the only reason to stonewall in the current situation is the urgent need to hide something. That can hardly be what Mr Cheney wants.

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Venezuela

The leader digs in

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The more unpopular he becomes, the more Hugo Chavez insists on his "revolutionary" plans

Reuters

Get article background

THE year has got off to a bad start for Venezuela's populist president, Hugo Chavez. It was meant to mark the "consolidation" of what he likes to call his Bolivarian revolution. So far, it has brought little but disintegration and increasing isolation. His popularity ratings continue to sink, and his grip on the country is palpably weakening. His response? To turn up the revolutionary talk and to press ahead with the implementation of 49 economic decrees, peremptorily unveiled last November, which are both the heart of the "revolution" and the chief cause of the fury among his opponents.

An early blow to Mr Chavez was the vote on January 5th for a new parliamentary leadership. His loyal ally Willian Lara, the president of the National Assembly, came close to being voted out by a newly-united opposition in alliance with dissident members of the president's own Fifth Republic Movement, who are tired of seeing the assembly treated as a branch of the executive. Although Mr Lara survived, the government's dominance of the legislative branch was greatly weakened. Henceforth it will be unable to count on the "qualified" (two-thirds or three-fifths) majority required for constitutional amendments or for appointing, for example, the members of the council that oversees elections. The council's directors must retire this month, and the opposition will want to see a more balanced team.

In a speech to the assembly on January 15th, the president struck an unusually conciliatory note. But he soon returned to his old ways, lambasting the media for supposedly abetting a conspiracy to unseat him, and calling the Catholic church a "tumour" on the country. After a mob hurled threats at the offices of *El Nacional*, a newspaper critical of Mr Chavez, in early January, both the Inter-American Commission on Human Rights and the United States government objected. The Vatican, too, is concerned: the "tumour" remark came after the papal nuncio, the dean of the diplomatic corps, had complained that the government was getting too radical.

But the low point for the president came on January 23rd, the 44th anniversary of the overthrow of Venezuela's last military dictator, General Marcos Perez Jimenez. Mr Chavez has never regarded the date as one to celebrate; it led, after all, to the 40-year dominance of his arch-enemies in the Democratic Action and Copei parties. But when the opposition announced a mass march to mark the occasion, he decided to call out his own supporters. The opposition march surpassed all expectations, uniting everyone from the far-left Bandera Roja (Red Flag) party to the business federation Fedecamaras, along with many unaffiliated, ordinary citizens. And although the organisers insisted it was not "anti-Chavez", but in favour of freedom and democracy, most marchers thought the president had to go.

Mr Chavez declared that his own march was three times as big as that of the opposition, which was claiming over 200,000 participants. He had taken the precaution of banning helicopter flights over the city, to avoid aerial photography, but the official video shot by the police was leaked to the media. It showed the opposition march, as everyone on the ground knew, to be several times larger than the president's.

The next day, perhaps not coincidentally, came the long-awaited resignation of Luis Miquilena, a veteran politician of the left, from the interior ministry. Mr Miquilena was the key figure in constructing the

alliances that brought Mr Chavez to power, as well as the link between the former army lieutenant-colonel and the world of civilian politics. His going leaves the president almost totally surrounded by an inner circle of unquestioning, radical allies, many of them also former military men. January also saw the resignation of the ambassador in Washington, Ignacio Arcaya, who had done his best to keep open lines of communication to the United States.

The new interior minister, Captain Ramon Rodriguez Chacin, is a former naval officer, best-known in recent times as the president's link with the Colombian guerrillas. “The interior ministry is where you normally place your key political operator,” remarks Felipe Mujica, a former Chavez ally and the president of the Movement to Socialism. “This guy doesn't have a single politician's telephone number.”

Although he may not have their numbers, many in the opposition fear that Mr Chacin will be listening to their conversations. Convinced that there is a conspiracy against him, Mr Chavez has openly declared that he has the opposition under surveillance. Parliamentary leaders of his Fifth Republic Movement recently made public a relatively innocuous tape in which Carlos Andres Perez, a former president now in exile, discussed tactics with Carlos Ortega, the president of the main labour confederation (CTV), before the assembly vote on January 5th. This, they claimed, was proof of an anti-Chavez “conspiracy” headed by Mr Perez.

Much attention will now be devoted to Mr Ortega's confederation. Mr Chavez is refusing to recognise its leaders, who he says were fraudulently elected. Recognised or not, the CTV has the power to create huge disruption, especially if backed by a broad movement to unseat the president. With thousands of labour contracts up for renewal, and the unions already in dispute with the government, conflict seems inevitable. And if Mr Chavez continues to meet every challenge with defiance, the outlook can only be described as turbulent.

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Brazil's energy crisis

A struggle for power

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Rationing is ending, but Brazil may still find it hard to keep the lights on

AP

Anything in all those lines?

IF THE energy crisis is almost over, why, Brazilians wonder, do the lights keep going out? The government says electricity rationing will end this month, but in recent days southern Brazil, which has most of the country's population and industry, has suffered its worst power cuts in years.

The government introduced rationing last May, after a prolonged drought had almost drained the hydro-electric schemes that provide more than 90% of the country's power. The public responded admirably to the order to cut consumption by 20% and blackouts have been avoided, until now. Although recent downpours have brought most reservoirs back to reasonable levels, prompting the government to promise an end to rationing, a huge power cut across ten states on January 21st, followed by another this week in the industrial state of Rio Grande do Sul, reminded everyone of the system's fragility.

As well as imposing rationing, the government unveiled a plan last year to encourage the building of private power plants—both hydro-electric and gas-fired—and transmission lines. But many potential investors have been put off by the high price of gas piped in from Bolivia, so only 14 of the 50 gas-fired stations the government wants are currently under construction, of which ten are being built by Petrobras, Brazil's state oil company.

Until now the government's plan to match power supplies with ever-growing demand has been based on liberalisation. In 1995 it started selling electricity distributors and encouraging state governments to sell their generation firms. By 2006, all power plants were meant to be privatised, and buyers and sellers would trade electricity through a mix of long-term contracts and a “spot” market. But the spot market has become mired in legal problems. The government has also begun to fear that freer prices mean higher prices, and that new power stations will be unable to compete with old hydro-electric plants, whose initial costs have long been written off. Existing hydro stations currently charge $20 a megawatt-hour; new ones would have to charge about $32, and gas-fired stations $39, to be economic.

So, last month, liberalisation was all but halted. The government will now keep its hydro stations and hold their prices down. It will also regulate the spot-market price. Distribution firms will be able to buy only 5% of their power on the spot market, down from the 15% originally proposed, to make them seek long-term contracts with new gas-fired generators, whose fuel purchases will be subsidised.

Will all this solve Brazil's power crisis, or make it worse? Sandra Boente of Salomon Smith Barney, an investment bank, says that, though the government will avoid higher electricity prices in the short term, its market meddling may deter investors from backing new power projects. On the other hand, Luiz David Travesso, who runs the Brazilian operations of AES, an American power generator and distributor, thinks the new measures show the government's determination to be flexible if necessary. Who is right will depend on the details of the new plan, as yet unveiled.

Brazil's hesitations are not unreasonable. Few other countries that depend heavily on hydro-electric power, which in turn depends on unpredictable rainfall, have so far dared to liberalise. Among these, Brazil is exceptional in that many of its dams also serve to control river levels and provide irrigation, thus making them hard to regulate satisfactorily if privatised. Other Latin American countries can offer no solution: Venezuela, Chile and Mexico are also struggling to attract investment in power generation and transmission without a politically explosive rise in tariffs.

But shying away from liberalisation has considerable costs. It means losing the big efficiency savings that most electricity privatisations have generated. Brazil, like its neighbours, also has big debts which limit the state's ability to put its own money into new power projects. So unless it is prepared to let power shortages continue restricting growth, Brazil may be better off switching back towards a free market, difficult though it may be to get right.

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British Columbia

Campbell's war

Jan 31st 2002 | VANCOUVER
From The Economist print edition

A wild gallop to the right causes consternation

LAST May, Gordon Campbell, British Columbia's Liberal leader, won a landslide victory by promising to cut taxes and the size of government. His party took all but two of the 79 seats in the legislature, reducing the ruling New Democratic Party to a pathetic rump. Once in office, Mr Campbell followed through, cutting income taxes by a surprising 25%. Result: joy. Now he has gone much further. Result: uproar.

Last weekend, Mr Campbell set out to cut the power of the public-sector unions, a sure recipe for conflict in Canada's most unionised province. In a special legislative session, the Liberals imposed a contract settlement to end a ten-month teachers' dispute. The settlement gave the teachers a 7.5% wage increase over three years, less than half what they had demanded, and took away their power to determine staff levels and class sizes.

The government then imposed new contracts on the health and social-services unions, stripping them of job-security provisions that would prevent non-clinical services being farmed out to private firms. Mr Campbell called these agreements “sweetheart deals” made by the New Democrats and their union friends. Privatising hospital maintenance, accounting, food services and the like could save up to C$900m ($560m).

This is only the first part of Mr Campbell's radical plan, announced on January 17th, to reduce the size of government. Without cuts, he said, the deficit would hit C$3.8 billion by 2004. Yet the Liberals did not inherit a deficit. The New Democrats, having belatedly cleaned up their act, left behind a surplus of C$1.5 billion. The Liberals gave that away in tax cuts, and just at a time when revenues were starting to fall.

Unfazed, Mr Campbell said the government would balance the books by cutting spending by C$1.9 billion over three years and eliminating 11,700 jobs. Two dozen courts and eight jails would be closed. Legal aid would be cut. Welfare benefits would be smaller and harder to get. Road maintenance would be privatised. Health and education would get off lightly by merely having their budgets frozen.

After last weekend, that promise rings hollow. Regional health authorities say that rising costs will still mean service and job cuts; another 12,000 jobs may go. The minister of health admitted this week that some hospitals would have to close. The Liberals hint that more cuts are coming.

Not surprisingly, the public-sector unions are mustering for a long fight. On January 28th, teachers shut schools across the province in what they promised would be a series of protests. Some health workers also walked out, while their leaders went to court claiming that the government was abusing its powers. And the British Columbia Federation of Labour (representing 450,000 unionised workers in the province) began a huge campaign of publicity and rallies to persuade the government to change course.

Few hold out much hope. For over four years Mr Campbell, who is not known for flexibility, has prescribed such medicine as the only way to revive British Columbia's slumping economy. In the short run, however, the province may have little power to control its economic fortunes. Japan's continuing malaise, the United States' recession and the impact of American duties against softwood imports have all hammered British Columbia. The province lost more jobs in December than any other in Canada. Unlike Alberta and Ontario, where similar cuts were cushioned by thriving economies, British Columbia will have no soft landing.

With their vast majority, the Liberals can shrug off the unions' protests. But if ordinary citizens begin to complain, as many may with the health-service cuts, nonchalance will become less easy.

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Haiti

Where racketeers rule

Jan 31st 2002 | PORT-AU-PRINCE
From The Economist print edition

A rickety island becomes yet more unstable

SEVEN years after American troops intervened to oust a brutal military regime and reinstate Haiti's democratically elected president, little has changed in Latin America's poorest country. Although civilians still rule, President Jean-Bertrand Aristide—elected again last year after a five-year gap—is hardly living up to expectations as the great democratic hope.

Serious signs of political instability have also returned. After almost a decade without a coup, there were two attempts last year, in July and December. Opposition politicians and journalists have been hounded, and their offices and homes burned, by the *chimère*, Mr Aristide's hired thugs from the slums.

Meanwhile, the economy has stagnated. Two-thirds of Haiti's 7.8m inhabitants live in poverty, half of all adults are illiterate, and less than a quarter of rural children attend primary school. Infant and maternal mortality rates remain among the highest in the world, and Haiti produces more new cases of HIV-AIDS each year than the entire United States.

The government has failed to pass a budget in six years. Instead, diplomats suspect, the country's depleted coffers are being filled with pay-offs from drug-dealers who use the country to trans-ship an estimated 10-15% of the cocaine that enters the United States. With notable exceptions—one big tobacco group is investing $40m in a Hilton franchise by the airport—private industry is struggling to stay afloat. Some of Haiti's rich families are selling up and moving abroad. They complain of government corruption and a dramatic rise in kidnappings by armed gangs, some of whom are thought to have close links to Mr Aristide's Lavalas Family party.

The Haitian government blames the rest of the world for blocking $500m in foreign aid, calling it “economic terrorism”. But last year the government spent an estimated $7m to buy four official mansions, including a $1.5m hilltop spread for the prime minister. Within the broad ranks of the Lavalas movement, which first swept Mr Aristide to power in 1990 as the champion of the poor, discontent is growing. For the first time, “Down with Aristide” graffiti have begun to appear. Small anti-government demonstrations have taken place around the country, and are ruthlessly put down. On January 27th, police used tear-gas and live bullets to disperse a crowd of hundreds who were storming a warehouse in Port-au-Prince in protest against corruption in a rice-importing programme.

So far, Mr Aristide has managed to dodge most of the blame. Last week it was the turn of his prime minister (and boyhood friend), Jean-Marie Cherestal, to take the fall after the *chimère* demanded his head. “The mafia wing of the party is trying to take Aristide hostage,” said one member of Lavalas. “It's a bunch of thieves, murderers and racketeers.” The president hangs on largely because of fear of what may follow him. “Aristide is one of the more moderate in his party,” says Richard Coles, a former president of the Haitian Manufacturing Association. Mr Coles, one of a small group of progressive businessmen, worries that the severing of international aid merely plays into the hands of those in Lavalas “who don't believe in democracy”.

Mr Aristide himself appears to be aware of the threat from within. A few days before the attempted coup of December, he delivered a dressing-down to top Lavalas officials, specifically warning them against any ties to drugs. Government officials now admit that the attempted coup may have involved dissident mafia elements within Lavalas, led by a group of disgraced former officers in Haiti's now-disbanded armed forces under a former policeman, Guy Philippe. Mr Philippe, now under arrest in the Dominican Republic, is one of nine officers who fled Haiti in November 2000 after foolishly approaching the American embassy to seek backing for a coup. Several are believed to have drug connections.

The government refuses to take any responsibility for its woes. Instead, it hints at an international conspiracy to sink Mr Aristide. Its critics are unimpressed.

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Thailand

In Thaksin's pocket

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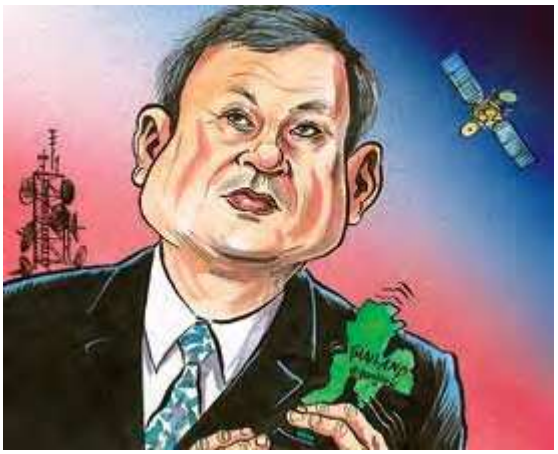
From The Economist print edition



With his latest political merger, the power of Thailand's prime minister has grown even greater

Get article background

WHEN Thaksin Shinawatra, Thailand's prime minister, swept to power in a general election a year ago, he skipped the traditional trip to a Buddhist temple to give thanks. It does not appear to have done him any harm: soon after the election, Mr Thaksin's Thai Rak Thai (TRT) party achieved an overall majority in the main chamber of parliament by merging with a small opposition party. On January 27th, it swallowed a second party, thereby securing 289 of the House of Representatives' 500 seats. Add in TRT's remaining coalition partners, and another party set to join the government in the next few months, and Mr Thaksin may soon control as many as 350 seats.

That would give the government a majority not only in the House, but also in joint sittings with the 200-member Senate. It could then amend the constitution at will, and block censure motions against the prime minister. No non-military prime minister of Thailand has ever enjoyed such unfettered power. Even before the latest merger, only one party of any size, the Democrats, offered any resistance at all to Mr Thaksin. “We used to have so many parties we could not remember their names,” Mr Thaksin crowed after the conclusion of the merger. “We are now sending a message to the world that there will be continuity in politics.”

But what will Mr Thaksin do with his majority now that he has it? His electoral campaign centred more on individual policy pledges than on any overarching philosophy. He promised wars on drugs and corruption, an overhaul of the Thai education system, and a raft of new spending schemes. To his credit, he set to work quickly on the spending schemes, declaring a limited moratorium on farmers' debts, endowing each of Thailand's 70,000 villages with a 1m baht ($22,600) investment fund and introducing universal medical care for just 30 baht per consultation. By most accounts, these gifts from on high have delighted Thailand's poor and long-neglected rural residents.

However, the euphoria may not last. Complaints are mounting that hospitals have lowered their standards along with their fees. Thai farmers seem just as hard to satisfy as their counterparts around the world; they are already demanding more help. In the meantime, Phongthep Thepkanjana, the justice minister, cannot think of any more dramatic victory in the war on corruption than a revision of the regulations concerning gifts to state-sponsored charities. The war on drugs is bound to be an uphill struggle. And Mr Thaksin's campaigning education minister resigned last year after only four, apparently frustrating, months on the job.

To the extent that any idea underpins all these policies, it is a vague feeling that Thailand ought to rely more on its own resources, and pander less to the concerns of meddling foreigners. The name Thai Rak Thai means “Thais Love Thais”. But even on that score, Mr Thaksin has blown hot and cold. At the beginning of his tenure, he ordered government agencies to hire only local consultants, and approved a law limiting foreign ownership of Thai telecoms companies to 25%. More recently, with the economy still struggling despite the government's spending boost, he has started to court foreign investment once more. He went to New York to hobnob with American capital, while the government announced special tax breaks for foreign companies that set up their regional headquarters in Thailand.

Some cynics dismiss Mr Thaksin's nationalist streak as a populist ploy, designed to justify measures that simply favour the sort of local moguls with whom he has stacked his cabinet. Several of the cabinet's decisions on telecoms, including the 25% limit, benefit indigenous companies with ties to its members. Mr Thaksin himself, who was reckoned to be the richest man in Thailand until he transferred most of his assets to his son last year, made much of his money from mobile phones, and his company launched Thailand's first communications satellite. The government has also awarded contracts to an advertising company in which his family holds a stake.

Mr Thaksin insists that he does not concern himself with petty matters like advertising budgets, and cannot avoid grand issues like telecoms regulation. But fears of conflicts of interest are growing: some TRT members have suggested amending the constitution to allow spouses of ministers to bid for government contracts. The recent elevation to the deputy leadership of TRT of a businessman who has been barred from parliament for making a false declaration of his assets has done nothing to reassure Thais or foreigners about the government's sense of propriety.

Yet so far all this fuss has barely dented Mr Thaksin's popularity. Critics put that down to the government's influence over the media. The state owns all television stations save one—which belongs to another of Mr Thaksin's family's businesses. Some journalists have alleged that firms owned by Mr Thaksin's family have threatened to withhold advertising from critical newspapers, a charge he denies.

But there is one pillar of society over which Mr Thaksin definitely has no influence: the monarchy. In December, King Bhumibol used his birthday address to deliver a thinly-veiled rebuke to the prime minister. Double standards and a failure to listen to criticism, he said, had brought the country to disaster. Strong words, for a country where circumlocution is the norm, and probably very influential ones, given that the monarchy still commands immense reverence.

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Japan

Exit Tanaka, in tears

Jan 31st 2002 | TOKYO
From The Economist print edition

Junichiro Koizumi may come to regret sacking his foreign minister

WHEN he formed his cabinet last April, Junichiro Koizumi named one minister who, above all, seemed to prove that he meant business. Makiko Tanaka, the outspoken daughter of a 1970s prime minister, took over the foreign ministry and promptly declared war on its aloof and unaccountable bureaucrats. Although other ministries have done more to keep Japan's economy bedridden, most voters thought hers was a good enough place to start, and showered her with approval ratings that only Mr Koizumi could match.

Unfortunately, Mrs Tanaka made a poor foreign minister. She showed little flair for diplomacy, offered no good foreign-policy ideas, and undermined her assault on the bureaucrats with petty personal feuds. So after her tangle with a powerful MP slowed the passage of an economic-stimulus bill, Mr Koizumi conceded yet another round to the bureaucrats. He sacked Mrs Tanaka on January 29th, saying her tribulations had begun “to affect the entire government and parliamentary debate”.

The row that finished off Mrs Tanaka followed a big international conference last week in Tokyo. Her underlings had at first barred a pair of aid groups from the gathering, which was held to pledge assistance for Afghanistan, but Mrs Tanaka decided to invite the two groups anyway. She says she did so after her deputy, Yoshiji Nogami, told her that the ban was the work of Muneo Suzuki, a powerful ruling-party MP who holds sway over the foreign ministry. Publicly, Mr Nogami—who was also forced to resign this week—says he knows nothing about this. And when Mrs Tanaka defended herself in parliament after the conference, Mr Suzuki called her a liar, a barb so treacherous that it later reduced her to tears.

Mrs Tanaka's nine-month tenure has produced many similar episodes, from lost jewellery to hidden invitations for imperial garden parties. All the while her subordinates, who once worked feverishly behind the scenes to make their ministers look good, displayed an even greater talent for smear campaigns. But she has got no closer to her ultimate goal of calling the bureaucrats to account, and it has been clear for months that her days were numbered.

In the event, domestic policy rather than foreign affairs seems to have triggered her downfall. The economic bill that had been held up by her row with Mr Suzuki—and which was eventually passed this week—involves a supplementary stimulus. It will stuff an extra ¥2.5 trillion ($19 billion) of spending into the budget for the year that ends on March 31st. Though tiny in the context of the economic slide, Mr Koizumi was keen to push some form of anti-recession plan through the Diet. The need for speed seemed especially great early this week, when the government released a new string of scary statistics.

The unemployment rate ticked up to 5.6% in December, the highest figure since the second world war. More than 1m heads of households are now out of work. All this contributed to a fall in real household spending of 4.4% in the year to December. The news, combined with another warning from a foreign rating agency, drove the Nikkei stockmarket index below 10,000, close to the 18-year low that it hit in the wake of last year's terrorist attacks in America.

These problems, of course, far outweigh those at the foreign ministry. Indeed, its inability to reverse a decade-long slump is arguably Japan's biggest foreign-policy problem, as well as its biggest domestic one. Whatever its effect on the foreign ministry, therefore, the sacking of Mrs Tanaka must be judged by whether it strengthens Mr Koizumi's ability to sort out the economy. By removing a large distraction, it may do that. But if Mrs Tanaka's failings hold any lessons for Mr Koizumi, it is that popularity ratings ultimately mean nothing if they are not backed by results.

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Terror in the Philippines

Another kind of enemy

Jan 31st 2002 | MANILA
From The Economist print edition

Americans go after the kidnappers

Reuters

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SOME Filipinos fear that their country is about to become the next battleground, after Afghanistan, in the American-led war on terrorism. The United States and the Philippines this week set in motion joint military manoeuvres which they describe as training exercises, but could be more than that. Nationalists, a broad church that includes anyone from communists to cabinet ministers suspicious of the return of the former colonial power, are incensed. They believe the exercises are really an operation in which American troops will go into action partly to rescue two Americans kidnapped by armed Muslims in the south of the country. Whatever the grounds for these suspicions, they are a symptom of the difficulty of waging war on terrorism in friendly, rather than hostile, territory.

Officials say that some 650 American soldiers, including 160 from special-forces units, will teach local soldiers how to fight Abu Sayyaf. Abu Sayyaf comprises a few hundred armed men who say they are fighting for independence for the Muslim minority in this mainly Christian country. But, unlike other separatist-minded Muslim groups, their main activity is kidnapping for profit. They release their victims on payment of a ransom, and behead the others. At present they are holding hostage two Americans and a Filipino. The United States regards the kidnappers as international terrorists, because they once had links with Osama bin Laden and his al-Qaeda organisation.

The “training exercises” entail the attachment of American military advisers to Philippine units at present operating against Abu Sayyaf on the southern island of Basilan, where the hostages are supposedly being held. The advisers will be armed and, if attacked, can shoot back. Opponents of the manoeuvres argue that the constitution prohibits foreign troops from fighting on Philippine soil. The communists in the region, whose now largely quiescent guerrilla army is many times stronger than Abu Sayyaf, have even warned the Americans that they face another Vietnam.

President Gloria Macapagal Arroyo insists that the manoeuvres are simply exercises, and that only Philippine forces will see combat. But she has also said it would be legal to allow Americans to join the fighting. Mrs Arroyo has expressed staunch support for George Bush's war on terrorism. Whatever the nationalists say, she can point to an opinion poll that indicates 84% of Filipinos approve of American help against Abu Sayyaf. However, Mrs Arroyo cannot afford to anger nationalists of whatever political colour. Her government is already nervous enough about its grip on power, without giving its opponents another excuse to attack it, literally or figuratively.

The president clearly considers the risk to be worth taking, if the reward is the defeat of Abu Sayyaf. But there is no guarantee that a new operation, even with direct participation by American troops, would succeed. Abu Sayyaf's members are masters of the jungle-clad mountains of Basilan, and they have the support of some of the local population. Moreover, any kudos for their defeat ought to be tempered by the fact that Abu Sayyaf's men, however ruthless, are not globe-trotting suicide bombers or hijackers. They are simply a gang of kidnappers.

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Uzbekistan

Such a popular president

Jan 31st 2002 | ALMATY
From The Economist print edition

Islam Karimov gets 91% support

IT WOULD have been too good to be true. With Uzbekistan now the main military ally of the United States in Central Asia and the recipient of $160m in American assistance this year—triple last year's figure—it had been hoped that its autocratic president, Islam Karimov, might just be nudged towards democracy. Fat chance. In a referendum on January 27th strongly criticised by human-rights groups, a scarcely-credible 91% of Uzbek voters supported an extension of the presidential term from five to seven years. The voters also made the parliament bicameral. Whether the extension of presidential duty will apply to Mr Karimov's current term, due to end in 2005, has been left unclear.

Mr Karimov claims that the longer presidential term will strengthen democracy and give Uzbekistan's presidents more time to implement reforms. “You should not put pressure on us,” he recently told a group from the United States Congress.

He has been in office since the Soviet period, and had his first term extended, by referendum, from 1995 to 2000. Then, two years ago, he won a second term with an overwhelming majority in an election regarded in the West as being neither free nor fair. Thousands of opponents have been jailed, most of them accused of Islamic fundamentalism. Uzbekistan has no independent press.

Local critics, who prefer not to be named because of fears for their safety, say that the latest referendum may have been Mr Karimov's way of testing the limits and patience of foreign countries, now that he is an American ally in the anti-terror coalition. An official from America's State Department, on a visit to Uzbekistan, questioned the validity of the referendum and said “human-rights issues” had been discussed with the government. However, any embarrassment the Americans may feel is probably outweighed by their assessment of Uzbekistan's strategic importance. Since the start of the Afghan campaign, over 1,000 American soldiers have been deployed at an air base in Khanabad in the south of the country.

Mr Karimov's ultimate aim, some believe, may be to follow the example of the leader of neighbouring Turkmenistan, and be made president for life.

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Landmines in Afghanistan

Cleaning-up time

Jan 31st 2002
From The Economist print edition

Removing landmines is a priority for the country's reconstruction

WHILE tending his flock in a mountain pasture in Anar Bagh, a village in Kabul province, Said Kareem Meherdel stepped on a landmine. He lost his right leg and severely injured the other. He was lucky to be alive, as one in three similar victims are not, but he is now wondering how his wife and five children, who live on his income, will survive.

After 20 years of war, Afghanistan is one of the most heavily mined countries in the world. Most mines were laid during the Soviet occupation of 1979-88 and during the internal fighting that broke out after they left. Although the Taliban declared landmines unIslamic in 1998, each side has accused the other of using them, and landmines planted over the past three years are now being unearthed around what used to be the front line.

Before mine-clearance programmes stopped in September, over 220 square kilometres (85 square miles) of land had been cleared, but another 724 square kilometres remained. Clearing half this area would allow most Afghans to resume a normal life but is likely to take seven to ten years. Work has now resumed, and new surveys, which are now possible in areas that used to be too dangerous to visit, suggest that another 100 square kilometres will need to be cleaned. Although small when compared with the scale of the landmine problem, unexploded duds from American cluster bombs are also adding to the workload. The bill for clearing the entire country is put at $500m.

The UN Mine Action Programme for Afghanistan (MAPA), which co-ordinates landmine work, believes mines claimed 150 to 300 victims every month in 2000, half of them children. With more people now on the move, the toll is likely to go up. The Halo Trust, a mine-clearing organisation working in northern and central Afghanistan, surveys villages and suggests safe routes for homeward-bound refugees to follow. The trust reports that some Afghans returning from exile step on landmines they themselves laid around their houses before leaving, to deter looters.

Added to the human tragedy is the economic loss, as mined roads and fields are hardly good for transport and farming. A square kilometre of irrigation works put out of action by mines costs as much as $1m annually in lost crops, while the benefits of every 50km of cleared roads come to over $250,000 a year.

Preventing people stepping on the deadly devices, and helping those who have, is also crucial. Together with other groups, the International Committee of the Red Cross (ICRC) tries to tell people about mines, using radio programmes or puppet shows for children, while helping villagers who take risks by cultivating mined areas to find other ways to make a living. The ICRC also operates six centres in Afghanistan, which produce and fit artificial limbs, and helps victims find jobs. Most employees are disabled.

Before September 11th, international money was getting scarce and MAPA had to scale back its operations. With the spotlight on Afghanistan, mine-clearing operations are likely to receive more generous contributions, at least for a few years. It may be too late for Mr Meherdel, but, with luck, not for his children.

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Indonesia

Settling the war of God and gold

Jan 31st 2002 | TERNATE AND TOBELO
From The Economist print edition

Uneasy peace in the Moluccas

ACCORDING to Benny Doro, he was appointed commander of North Maluku's Christian army by God. He says he once saw Jesus Christ soaring like a bird above him while he was fighting Muslims. He caught a bullet in his hand. The 50-year-old commander, whose real name is Bernard Bitjara—his adopted name Doro is the name of his village—accepts that he is a sinner, although not, it seems, for killing so many people that he has lost count, but for having two wives. God punished him, he says: one wife and their four children were lost when a ship carrying Christians sank.

In 1999 and 2000 many people died in North Maluku, the northern province in Indonesia's Moluccas island group—several thousand, according to some estimates. Jafar Umar Thalib, leader of a Muslim militia called Laskar Jihad, wants Mr Bitjara to face trial for his role in the slaughter. Some Christians, though, would put Mr Jafar on trial. Laskar Jihad fought Mr Bitjara's army. It joined with other Muslim groups in a bid to drive the Christians out of North Maluku or annihilate them. They nearly succeeded.

Today there is a sort of peace in the province. Soldiers enforce a state of civil emergency. Can peace survive? It is hard to say. This is not simply a religious conflict.

North Maluku is one of Indonesia's newest provinces, created in 1999, ironically to isolate the region from religious violence in Ambon. The town of Ternate, on the tiny island of the same name, is its capital. Mudaffar Sjah, the 48th sultan of Ternate, is well-groomed and speaks impeccable English. A moderate, too: he says that Islam does not oblige women to cover their heads in public. He is married to a Christian. He long served as a legislator during the Suharto regime and wanted to be the first governor of North Maluku.

In 1999 a dispute was raging next door to Ternate in Halmahera, the main island of the province. In part it was a squabble between the people of the Kao district and immigrants from the volcanic island of Makian over the control of a gold mine. Though loyal to the sultan of Ternate, Kao is mainly Christian. It was at this point that Mr Bitjara, alias Benny Doro, moved in with his army of God on the side of the Kao. The fighting spread to southern Ternate, which is populated by an ethnic group close to the people of Makian. The sultan's forces intervened but were driven back by the southerners and their Makian allies. What had been a dispute over land and gold became, at least in Makian eyes, a war of religion. The Christians were pursued and their churches destroyed. Today the sultan is in danger in his own island.

At the end of 1999 and again in May and June 2000, a vast war between Christians and Muslims raged across Halmahera and all the neighbouring islands. Probably the worst fighting was around Tobelo, Halmahera's main town. Mr Bitjara's forces were in the thick of it. They killed hundreds of Muslims who had taken refuge in mosques around the town.

Laskar Jihad and other Muslim groups mustered their forces, and by June 2000 Mr Bitjara's Christians were close to defeat. The president of the day, Abdurrahman Wahid, imposed a state of civil emergency that is still in force. But not everyone is convinced that the peace it has brought is real.

Thousands of Muslim refugees remain in squalid lodgings in Ternate, camping out in churches or former nightclubs alongside paintings of Osama bin Laden. Thousands of Christians are in barracks around Tobelo or in Christian-dominated North Sulawesi, also scared to go home.

Christian leaders say this is not a civil emergency at all, but a military one. They are pretty cynical about the army. During the fighting in 2000, many Muslim soldiers and police joined the *jihad* forces. Others did nothing to stop the fighting. But removing the state of civil emergency too quickly could be disastrous. Thousands of people who have lost close relations in the violence, sometimes through beheading, could decide to take revenge.

Some issues remain unresolved, in particular, that of the governorship. The sultan is a non-starter these days, but an election was held last year in which a former Suharto minister defeated an ethnic Makian, with support from the sultan and Christian legislators. Almost immediately, allegations surfaced of bribery and the government refused to swear him in.

In Ternate, graffiti calling for Christians to be wiped out or beheaded can still be seen. Notices tell Muslims that spreading their faith is the duty of them all. Christians believe the truth is simple: the Makian leaders and their allies covet their land and want to control the local economy, using as tools religion and warfare by proxy. As long as they believe that, the prospects for peace are, at best, mixed.

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Militant Islam

The difficult future of holy struggle

Jan 31st 2002
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Islamist movements in the Arab world have been both helped and hampered by Osama bin Laden's war

Get article background

IN 1967, Israel's rout of Arab armies stemmed the rise of pan-Arab nationalism. Will America's victory in Afghanistan quash militant Islam? Many Islamist radicals—*jihadis*, or disciples of holy struggle, as they style themselves—fear it may, and that Osama bin Laden's attack on America could jeopardise their efforts to overthrow “corrupt” and “heretical” Arab regimes.

Already, the radicals are torn by dissent. On one side stand the nationalists who have waged local or regional *jihads*, often with considerable savagery, against third-world regimes. On the other are the globalists, led by Mr bin Laden, who want to take on the world. At issue is not the aim—all *jihadis* believe that one day the whole world will be Muslim—but the timing. Mr bin Laden's mistake, says one North African who fought alongside him, was to declare war when the United States was at the peak of its power.

The quarrel dates back at least to 1987, when Mr bin Laden, then a young acolyte of the non-violent Muslim Brotherhood, revealed that he had a “vision” of an Islamic superstate. Muhammad had toppled the two great empires of the day, Persia and Byzantium. Mr bin Laden had helped to topple the Russians in Afghanistan, and now only America remained. He sought to rein in those fighting civil wars in the Arab world, saying that *jihad* should be waged solely against non-Muslims.

At first, the Egyptian, Algerian and Libyan radicals bitterly resented this. Their struggle, as they saw it, was against corrupt tyrants in the Arab world who were resisting the creation of Islamic states. For them, *jihad* was a necessary struggle of the weak against the evil and strong. But compromises were arranged. The leader of Egyptian Jihad, Ayman al-Zawahari, a shy Cairo doctor, joined Mr bin Laden's war on the West, and Mr bin Laden accepted the legitimacy of *jihad* against North Africa's rulers on the ground that they were all western stooges. The ideological partnership was sealed with the marriage of the daughter of Mr Zawahari's deputy, Muhammad Ataf, to Mr bin Laden's son.

As the global movement expanded its operations in Kashmir, Chechnya and Bosnia, dissenters held their tongues, or drifted away. No longer. Now it is the global *jihadis* who have slipped away—because they are dead, in hiding or muzzled in Cuban cages—and the local radicals are raising their voices again.

One such voice belongs to Mustafa Zayat, a lawyer whose shabby fifth-floor office in Cairo was for a decade the public face of *jihad* in Egypt. Mr Zayat was under constant threat: the lift to his office tampered with, the brakes cut in his car. He and his four lawyer-colleagues served jail terms in rotation. But Mr Zayat was always uneasy about Mr Zawahiri's partnership with Mr bin Laden, believing that it would make Arab regimes more repressive and alienate potential friends.

So it has turned out. The attack on the Twin Towers has both galvanised the West and given a green light to Arab regimes to repress their radicals by all means possible. “Those who carry out terrorist acts have no claims to human rights,” says Egypt's President Hosni Mubarak, calling for a global crackdown on the Islamists who are his most effective opposition. At least 20,000 people are now detained in Egypt without trial.

Ever since the Iranian revolution in 1979, Middle Eastern police states have considered themselves as bulwarks against an Islamist tide. Western governments used to argue, though not very vehemently, that systematic repression and autocracy were also a cause of Islamist unrest. Not now. In the wake of September 11th, western countries, hitherto a haven for Arab Islamists, have acceded to demands from Arab governments to round up Islamist exiles. Across Europe, new laws have been introduced to intern foreigners. Nor is the crackdown restricted to militant groups. Insiders say at least 23 European leaders of the Muslim Brotherhood, the oldest Islamist group professing non-violence, have been called in by the police and interrogated.

Arab regimes are gloating that the West is learning their language. The United States must construct its “own fight against terror on our model,” says Egypt's prime minister, Atif Obeid. On a visit to Syria in mid-January, American congressmen were treated to a lecture on how to fight terrorism from Bashar Assad, the president of a state which, according to America, sponsors terrorism itself. Syria's way of fighting terrorism was seen in 1982, when its tanks charged through the ancient city of Hama, the Muslim Brotherhood's heartland. Twenty years on, 25,000 Syrians are still missing and 100,000 are in exile. As a result, Syria would argue, it has saved itself from a militant Sunni uprising.

Even before September 11th, the American State Department had reined back its democracy programmes in the Arab world. Tunisia was implausibly characterised as a “stable democratic country” and America's promotion of Tunisian democracy was limited to money for training army officers. The Bush administration puts little or no pressure on Israel over its trampling of human rights in the occupied territories. At one time America defended al-Jazeera, the satellite television station that broadcasts across the Middle East from Qatar, from would-be muzzlers in Saudi Arabia, Morocco and Egypt. But during a visit to the White House last October the emir of Qatar was asked to stop it broadcasting Mr bin Laden's tapes.

Our son-of-a-bitch

In the minds of many Americans, the Islamist peril has filled the void left by the demise of communism. The rulers of Arab police states have become their allies. Even Libya's Colonel Qaddafi has had his pariah status waived. After a 15-year absence, Algeria's president has twice been feted at the White House in recent months. Algeria provided a list of 350 exiles allegedly linked to al-Qaeda. (Israel, Egypt and Libya have also provided such lists.) In return, the Bush administration is said to have eased restrictions on arms sales to Algeria to equip its security forces, despite the fact that 10,000 people disappeared during the country's brutal civil war.

In most cases, the suspects on the “terrorist lists” being given to America are waging local, not global, battles. But, for the moment, no Arab government will face penalties for increasing its repression. Nor will they have to contend with lectures from the West on the evils of summary tribunals or detention without trial. Britain and America, after all, are doing the same. Even hard-core human-rights activists fret about writing letters to save mainly Islamist prisoners of conscience.

Take the little-publicised case of a small Egyptian Islamist group, al-Waad (the Promise). Some of its members were caught collecting money for the Palestinian *intifada*, a *jihad* that even the government's Muslim leader, Sheikh al-Tantawi, says is legitimate. Eighty-three of them were put before a military court and charged with seeking to overthrow the president, a crime that carries the death penalty. In December, the police hauled 22 members of the Muslim Brotherhood before a military court at a remote desert compound.

As Arab governments use September 11th as an excuse to tighten their grip, similar round-ups have

been organised in the Gulf, the Maghreb and the West. Less than a fortnight after the New York attack, Tunisia's ruling party declared that President Ben Ali would amend the constitution to let him serve a fourth five-year term; a Tunisian military court this week sentenced 34 Islamic militants to prison. American aid is already flowing to governments, like Egypt and Yemen, that keep their radicals quiet, and more will follow.

Will the suppression work? Arab governments like to think that tough measures have crushed the menace already. The most recent attack on tourists in Egypt occurred five years ago. Life has returned to normal in the big cities of Algeria.

The enemy, or so they're told

But the battle is far from over. Egypt and Saudi Arabia have not defeated *jihad*, but pushed it to the periphery of the Muslim world. Ousted from one country, *jihadis* have quickly resurfaced in another. Ejected from Pakistan at the end of the Afghan *jihad* in 1992, the *mujahideen* regrouped in Sudan and the West. Forced from Sudan in the mid-1990s, they dispersed to Yemen and back to Afghanistan.

Confronted with a global crackdown for the first time, the *jihadi* movement is likely to lie low for months. But silence does not mean defeat. The war in Afghanistan is not yet over. Mr bin Laden and some of his close consorts may have outwitted their American hunters, and his foot-soldiers have for the most part donned civilian clothes.

More important, for all the misgivings about his timing, Mr bin Laden has succeeded in recapturing the imagination of the Arab street. For years, observers had written off political Islam as a spent force without the know-how to run a state, or the organisation to mount an effective challenge. The ability to strike at the heart of America has confounded the doubters.

America, the enemy

For many Muslims, the Americans' pounding of Afghanistan and Iraq, and its insouciance about Israel's pounding of the Palestinians, have made it the principal enemy, the basic cause of the Arab world's ills. In prayer halls from Java to London, Muslims recite the Qunut, an additional *raka'a*, or prostration, added during times of calamity, accompanied by the words “May God destroy America.” Some radicals are returning from the West to their own countries. As new immigration rules and financial controls take hold, resentment is mounting.

The question for the *jihadis* is how to exploit their new-found appeal. Since its origins in the early 1970s, the current movement has been a clandestine assortment of cells. Unlike the Muslim Brotherhood, which sought publicity for its programme of reform, *jihadis* plotted in secret to launch coups d'état. Now they are reviewing their tactics.

In the immediate aftermath of the attack on New York, some *jihadis* envisaged a popular Islamic revolt on the Iranian model, possibly in Pakistan or Saudi Arabia. Now they acknowledge they will need to plan for the longer term. They may take a leaf from the manual of Palestinian Islamic groups. These have not only won Arab plaudits for attacking the Israeli occupiers but have undermined Yasser Arafat for his attempts to be Israel's proxy policeman. They have thus raised the possibility of a militant Islamic alternative. Could the same policy—attacking colonial occupiers—be applied to America's military presence in the Muslim world?

There are precedents for success. Islamic groups dislodged American forces from Lebanon in 1982 and Somalia ten years later. Ten years on, many Muslims already subscribe to Mr bin Laden's analysis that the 5,000 American troops in Saudi Arabia and the 3,500 in Kuwait are occupying the holy land of the Arabian peninsula. In the coming months, that feeling will spread. From Bulgaria to Tajikistan, the United States is reported to be setting up 13 new military bases, with 60,000 troops, in nine Muslim countries. Preachers could pave the way by issuing *fatwas* declaring Americans “legitimate targets”, and *jihadi* exiles from the West could fan the flames just as they did when they returned home after winning the *jihad* against the Russians in Afganistan.

For *jihadi* groups, the strategy has a twofold attraction. First, they will be fighting America on their home turf. Second, they will be shaking the Arab

“The *jihadi* future

has never been brighter”

regimes which depend on American backing to stay in power. More repression will doubtless follow, but that too will help their cause. Arab regimes will be cast ever more as client states, while the United States will be tarnished for upholding them. And political Islam will gain a new generation of martyrs. “The *jihadi* future has never been brighter,” says a veteran observer.

“Violence is like virus,” adds Kamal Hilbawi, the former head of the Muslim Brotherhood in Europe. “The more you bomb it, the more it spreads.” Since so many of its followers have been forced into exile, the *jihadi* ideology has been widely dispersed. Continued suppression has done the rest.

The *jihadi* movement continues to attract some of the Arab world's richest and most privileged. The hijackers who flew into the World Trade Centre were western-educated. Fifteen of them, out of 19, came from the Arab world's richest state, Saudi Arabia. Two of Gaza's suicide-bombers have been sons of millionaires. The vast majority of Arabs fighting with the Afghan *mujahideen* were graduates, and their leaders came from the Sunni aristocracy. Mr bin Laden belonged to the richest non-royal family in Saudi Arabia. Mr Zawahari was born to a landowning family. This is no peasants' revolt.

But if, as many *jihadis* claim, the Muslim street is boiling, it is hard to detect the agitation. The forecasts of mass demonstrations against America's bombing of Afghanistan never materialised. For almost a generation, the region's authoritarian rulers have defied predictions of their downfall. Syria, a secular republic, has already produced a dynasty. Iraq, Egypt and Libya threaten to do so. The Islamists, so far, have proved incapable of harnessing people's frustration. The Arab world, it seems, is still immune to popular change.

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Arafat under siege

Awaiting martyrdom?

Jan 31st 2002 | RAMALLAH
From The Economist print edition

Don't believe Israeli promises of a more pragmatic Palestinian leadership

IT IS not the Israeli tanks penning him into his presidential compound that most worry Yasser Arafat but the bullets being fired at him from Washington. In the past week, the Bush administration has rounded vigorously on Mr Arafat—Vice-President Dick Cheney all but calling him a liar for denying his involvement in an attempt to smuggle in Iranian arms—and has gone a long way towards an unreserved acceptance of Israel's policy. Israeli actions that the Americans might once have called “provocative” or even “excessive” are now deemed legitimate acts of self-defence.

This partisanship has rattled everyone, including America's closest friends. Breaking their long silence on Mr Arafat's internment in Ramallah, Saudi Arabia, Jordan, Egypt and the European Union have all pointed out to the United States that the Palestinians have an elected leader, and that Mr Arafat is he. The American response is mealy-mouthed: “We will deal with the leaders who are there now,” said the State Department on January 28th.

But the administration is not dealing with Mr Arafat. It is letting Israel bleed him until he “aggressively roots out the infrastructure of the terrorist organisations in Palestine and arrests those known to plan or support such acts,” said Mr Cheney. But this bleeding will not work, reply the Palestinians, at least not in the realities of the Israeli-Palestinian conflict, and the garrison conditions of the West Bank and Gaza.

For three weeks over Christmas, Mr Arafat more or less imposed a ceasefire on Palestinian militias, reducing the gunfire to a sputter. But Israel treated it as a ruse: in the same period, it killed 21 Palestinians, invaded Palestinian-controlled areas 16 times and demolished dozens of houses. Five of its own soldiers were killed.

The final straw for the Palestinians was Israel's assassination of a Fatah leader in the West Bank on January 14th. Since then the armed struggle has been resumed, with ferocity. Four Palestinian attacks, at least three of them claimed by Mr Arafat's Fatah movement, have killed nine Israeli civilians in three Israeli cities. Yes, say weary Palestinians, Mr Arafat can reduce the violence, but not unilaterally.

Israel is telling the Americans there are “pragmatic” Palestinian leaders who would end the “terror” if they had the authority to do so. They are the solution, insists Israel; Mr Arafat, irredeemably, is part of the problem.

Palestinians wonder who these pragmatists are. If Israel means quislings to rule over each Palestinian area, then they would be seen as collaborators and dealt with as such by the militias. If it means old hands from the Palestine Liberation Organisation, such as Ahmed Korei (Abu Ala) or Mahmoud Abbas (Abu Mazen), or younger strongmen like Muhammad Dahlan and Jibril Rajoub, the security chiefs in Gaza and the West Bank respectively, the problem is political. All are from Fatah, and could not get away with countenancing an agreement that Mr Arafat had rejected. None of them could possibly accept what Israel's prime minister, Ariel Sharon, is currently proposing: a “long-term interim agreement”, with a truncated Palestinian “state” in enclaves amounting to 50% of the West Bank, and a bit more in Gaza.

If there is an alternative leadership, say Palestinians, it is the militias that have emerged in the fire of the uprising. These include fighters from Hamas and Islamic Jihad, and armed and disaffected youngsters from Fatah. Some among them seek a Palestinian state in the whole of the West Bank and Gaza, with not a Jewish settlement remaining. Others see the struggle largely in religious terms. None has any interest in providing Mr Sharon or America with the quiescence demanded.

Scorned as a partner and bereft of a successor, Mr Arafat is desperately seeking ways out. He wants

America's special envoy, Anthony Zinni, to return to the region to negotiate a ceasefire based on the Palestinian Authority (PA) cracking down on those Palestinians who defy its orders, and on Israel withdrawing from PA areas, lifting the siege and ending the assassinations. But on January 26th Mr Bush said he was suspending Mr Zinni's mission.

If that remains the American position, Mr Arafat has other exits. “Please God, give me the honour of being a holy martyr for Jerusalem,” he told a crowd of Palestinians in Ramallah the same day. What did he mean? “He means death,” answered a Palestinian observer. “He means if Israel is to remove him, it will have to kill him.”

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South Africa and AIDS

People power

Jan 31st 2002 | JOHANNESBURG
From The Economist print edition

Will defiance of official policy get South Africans the anti-AIDS drugs they want?

AP

She could have been saved

"HIV drugs gave me back my life," blared the headline of a South African newspaper this week. "HIV drugs really do work," trumpeted another. Why such excitement over reports which the rest of the world takes for granted? Because pro-drugs campaigners believe that the government could be on the point of modifying its opposition to anti-AIDS drugs, in particular to nevirapine, a drug that reduces the number of new-born babies who contract their mothers' infection. On January 31st, Manto Tshabalala-Msimang, the health minister, summoned health officials from nine provinces to review nevirapine's use.

President Thabo Mbeki, who doubts the conventional view that HIV causes AIDS, is suspicious of the cost, safety and usefulness of anti-AIDS drugs. He has not banned them, but South African doctors are discouraged from using them. In a country where as many as 100,000 babies are born with HIV each year, and one in four pregnant women carries the virus, this is a serious matter.

Giving nevirapine to all the mothers who need it would not be simple. And, even if the drug prevents them infecting their babies at birth, HIV-positive mothers can still pass the virus on by breast-feeding, so they would need to be provided with formula and taught about bottle-feeding. A pilot scheme at 18 state hospitals is under way, to see how best to tackle this and other problems. But for many South Africans, it is too little, too slowly.

In December, the High Court in Pretoria ordered the government to draw up, by April, a comprehensive plan to stop mothers infecting their children. Failure, the judge said, would be unreasonable and unconstitutional. The government is appealing, but some members of the cabinet quietly agree with the court.

Lionel Mtshali, the premier of KwaZulu-Natal, the worst-affected province, where one in three adults has HIV, has just said that he would make nevirapine available to all mothers and babies who needed it. Two other provinces, Gauteng and the Western Cape, already provide anti-AIDS drugs in dozens of hospitals. The trades unions and all the main opposition parties oppose Mr Mbeki's AIDS policy. An Anglican archbishop tells his congregation that withholding treatment is "sinful". John Kane-Berman, of the South African Institute of Race Relations, says "The AIDS policy is beginning to crumble because of facts on the ground, just as the apartheid Group Areas Act eventually collapsed because of ordinary people."

Activists, including Médecins Sans Frontières, openly import generic drugs from Brazil. Some pharmaceutical companies offer anti-AIDS drugs free to hospitals in certain provinces. Doctors and nurses smuggle the pills into hospitals. Some are even said to hide them inside soft toys so that patients can take them secretly.

A few doctors have been suspended for dispensing the drugs. But as the largest province and the two richest ones continue with their programmes, wider use of nevirapine for babies is likely. Mrs Tshabalala-Msimang may allow more pilot schemes, as a way of distributing more drugs without openly defying her boss.

The next campaign may concentrate on treating the country's tragically large number of rape victims.

Forced sex is far riskier than consensual sex, partly because of the trauma, and partly because of the high prevalence of gang rape. Some 40% of young men are HIV-positive. The government worries that it can never provide all the drugs needed. Babies and rape victims would be a start.

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Explosion in Nigeria

Fire and water

Jan 31st 2002 | LAGOS
From The Economist print edition

Tragedy upon tragedy

THE night sky over Lagos lit up orange and red. The ground shook, buildings swayed and shards of hot metal rained down. On January 27th, a mountain of heavy munitions, carelessly stored in an army barracks in the middle of a crowded city, exploded. The blast ignited petrol dumps and sent fireballs typhooning in all directions. Houses and factories went up in flames and perhaps a dozen people were burned to death. But much worse was to come.

Hundreds of thousands of people living near the barracks panicked, and fled into the hot, dark night. Unable to see where they were going, many ran down a muddy slope and into a marshy canal. The screams of the first to realise what was happening could not stop the stampeding crowd behind. Those who tried to stop were trampled, or pushed into the water. Many adults were strong enough to swim across, or tall enough to keep their heads above the surface. Children, however, were not so fortunate.

The scene the next day was horrific. A twisted jumble of bodies of men, women and children floated to the surface. Distraught local people fished out the dead and searched frantically for survivors. Grieving mothers wept over the remains of their sons and daughters. Nigeria's president, Olusegun Obasanjo, called it a “monumental disaster”. The official death toll was over 700; newspapers speculated that as many as 2,000 might have died.

The governor of Lagos state, as soon as he heard the blast, rushed to make a television broadcast, along with the commmander of the barracks, to reassure people that they were not being deliberately bombarded and that there had not been another coup. Nigeria has suffered six putsches since independence in 1960, so this was just as well. But since then the government's response has been lacklustre.

Mr Obasanjo dropped briefly into Lagos and visited the barracks, but not the canal. His government said that it would set up a relief fund for the victims and their families, and an inquiry into the causes of the accident, to be run by the army.

Whether military investigators will probe hard for evidence of negligence by their fellow men in uniform remains to be seen. Many of the victims doubt it. Why, they ask, did the army store so much heavy ordnance in such a densely-populated area, and in an arsenal that even the commander in charge admitted was badly maintained? Why, furthermore, did the government ignore a recommendation by the Senate's defence committee, that the weapons should be rehoused elsewhere? Nigeria's parliament promised its own inquiry, but many Nigerians, fearing that this too might be a whitewash, demanded an open judicial inquiry.

Adewari Pepple, a senator, said that parliament would demand proper compensation for all the victims, and changes to the way that munitions should be stored in future. But for many Nigerians, the tragedy was yet further evidence of their rulers' callous incompetence. Storing high explosives in a packed slum shows “a total lack of concern for the people of this city,” observed Clement Nwankwo, a lawyer and human-rights activist.

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Dissent in Zimbabwe

Standing up to the chief

Jan 31st 2002 | HARARE
From The Economist print edition

Even members of Robert Mugabe's own party are having doubts about him

Get article background

AP

I've prepared a speech, but it's illegal to read it out loud, laments Tsvangirai

IT WAS, he said, “the most calculated and determined assault” on Zimbabwe's constitutionally-guaranteed liberties in the 21 years since independence. Such forthright condemnation of Robert Mugabe's new media-bashing bill would have raised few eyebrows had it been voiced by the opposition. But the speaker was Eddison Zvobgo, a founder member of the ruling party, ZANU-PF, and he was supported by at least 14 ZANU lawmakers. To coin a phrase, when even members of your own party tell you that you are behaving despotically, it is perhaps a sign that you are.

Mr Zvobgo, a witty, 67-year-old, Harvard-educated lawyer, was once one of Mr Mugabe's inner circle. But his ill-disguised ambition to become the next president led Mr Mugabe to sack him from the cabinet in 2000. Until recently, he was considered a spent force. But he retained the chairmanship of the parliamentary legal committee, which he is now using to thwart the president. Fulminating from the floor of parliament, Mr Zvobgo declared no fewer than 21 of the bill's clauses to be unconstitutional. Among the offending powers the government seeks to grant itself are the power to ban newspapers, to jail journalists for writing unfavourably about it, and to ban foreigners from owning media companies in Zimbabwe.

ZANU has a solid majority in parliament, not least because Mr Mugabe appoints a fifth of the members. But the party has failed to unite behind the media bill, partly because it is so odious, and partly because it is the brainchild of a new minister who has many enemies within ZANU.

Jonathan Moyo, the information minister, was once a respected academic and loud critic of the ruling party. But three years ago he joined the Mugabe machine. Appointed to parliament and the cabinet by the president, he is now in charge of banning independent radio stations and making sure that television news bulletins are suitably fawning towards the president. The media bill, if passed, would give him the power to bar any journalist he disliked from working. The prospect appals several ZANU lawmakers. Several times in the past month, enough stayed away from the house, when votes were scheduled, to force the government to delay the bill.

But despite the split in his party, Mr Mugabe is far from defeated. He will probably be able to twist enough arms to pass his press bill, and he has other tools to help him campaign for re-election on March 9th and 10th. Thousands of members of his new green-uniformed militia have set up roadblocks all around the country, where they beat up anyone who has not taken the precaution of spending a day's wages on a ZANU membership card.

The “terror teens” as they are known, have been expertly trained. Common torture techniques include tying strands of barbed wire to the end of a stick to make a flail, and tying victims to trees so that they cannot ward off the blows. More than ten people have allegedly died at their hands since December. Those caught reading the *Daily News*, an independent newspaper, are particularly at risk. Mr Mugabe's bully-boys have even marched into schools, interrupted lessons, and ordered young children to sing revolutionary songs instead of reciting their times tables.

Meanwhile, Zimbabwe is running out of food. Mr Mugabe's policy of encouraging land-hungry party members to invade white-owned commercial farms has made it tricky for farmers to grow their crops.

Maize, the main staple, has been generally unavailable in shops for two weeks. Cooking oil and sugar are also scarce. The agriculture minister adamantly denies that there is a food shortage, but few Zimbabweans, observing the empty shelves, are inclined to believe him.

The opposition presidential candidate, Morgan Tsvangirai, has given up normal campaigning in some parts of the country. A new law obliges him to inform the police whenever he wants to hold a rally. Each time he has done so, however, the police have passed the information on to Mr Mugabe's militiamen, who have come and broken it up. Since, under the same law, any public criticism of the president or the government could earn the critics long jail sentences, opposition activists now favour small, private meetings in their houses. The ones the terror teens have not burned down, that is.

Despite these tactics, Mr Mugabe is now so unpopular that Mr Tsvangirai could win. Pressure from outside is belatedly mounting. On January 28th, the European Union threatened to impose a travel ban on senior ZANU members, and to freeze their offshore assets, if Mr Mugabe does not allow EU monitors into Zimbabwe to oversee the election by this weekend. Britain, meanwhile, is pushing to have Zimbabwe suspended from the Commonwealth. But the old colonial power was rebuffed on January 30th, when an eight-member Commonwealth committee, charged with monitoring members' adherence to democratic principles, voted to do nothing, at least for now.

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Europe's stability pact

Could the euro's nuclear option ever be used?

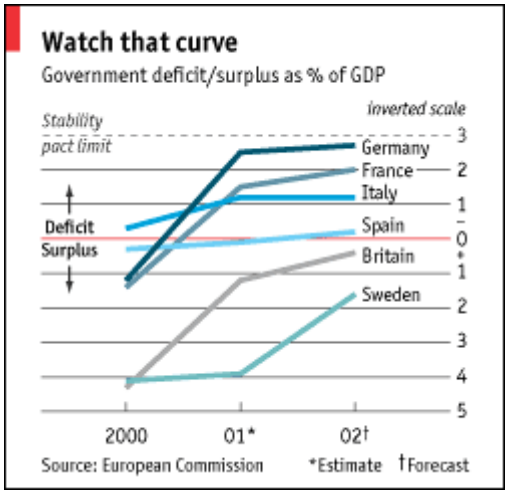
Jan 31st 2002 | BRUSSELS
From The Economist print edition

The European Commission has warned Germany that its budget deficit is getting fearfully close to the point when it would trigger huge fines. A credible threat?

DURING the cold war, the doctrine of mutually assured destruction helped keep the peace. Responsible behaviour was ensured by the threat of unthinkable consequences. The designers of the euro have created their own nuclear option to ensure responsible behaviour by the 12 members of the European Union that have adopted the single currency. Under the terms of a "stability and growth pact", any government in the euro-zone that runs a fiscal deficit of more than 3% of GDP is liable to be fined up to 0.5% of its GDP. Potentially, the fines could run into billions of euros. It is hard to believe that any European government, particularly one already struggling to balance the books, could survive the humiliation of such a fine. But that is precisely the point. The idea is that, faced with such a choice, all governments would follow the path of fiscal righteousness.

On January 30th, just weeks after the successful launch of euro notes and coins, the European Commission issued its first warning to a euro-zone country that it was in danger of crossing the 3% threshold. The warning was to Germany, the euro-area's largest economy and, ironically, the country that had insisted on the stability and growth pact in the first place. The Germans wanted the pact to ensure that their country's post-war tradition of sound money would not be imperilled by a currency union with countries like Italy, which had a reputation for weak currencies, inflation and fiscal irresponsibility. But a big economic dip at home means that it is the Germans themselves who now have the biggest deficit. The commission is predicting that Germany will run a deficit of 2.7% of GDP this year.

Commission officials are at pains to play down the warning. They say there are three degrees of EU comment. The first and mildest is simply to note that a deficit is approaching the dangerous 3% mark, but not to criticise government policy. The second is to note a problem, and to point the finger at government policy. The third is when a country actually breaks 3%, prompting a complicated fining procedure. Germany, say EU officials, has had a warning only of the first sort. By contrast, Portugal, though its projected deficit of 1.8% is lower than Germany's, has received a more severe second-degree warning, because its government is deemed to have irresponsibly stoked up its economy.



But the commission's extreme tact only sharpens sensitivities all round. For it is distinctly possible that when the EU governments' finance ministers meet in council on February 12th they will reject the commission's recommendation that Germany should be formally warned. If that were to happen, the whole stability pact would begin to unravel. Pedro Solbes, the commissioner in charge of economic and monetary affairs, declares that "the pact's credibility is at stake."

The possibility of the council squashing the commission has been increased by Germany's objection to the commission's recommendation that it should get an early warning. If Germany and Portugal abstain in the council and just one other big country fails to back the commission, then no formal warning will be given. Bizarrely, that big country could be Britain, which, though not even inside the euro-zone, still has a right to vote on issues such

as this one. The British fear that, if they ever joined the euro, the pact might hinder plans to put extra cash into public services.

A senior commission official says that if the Council of Ministers does not let the commission warn Germany, “that will be the end of the stability and growth pact”. So the council may well back the commission this time. But the threat of fines is already posing politically awkward choices in Germany. The chancellor, Gerhard Schröder, can no longer go on a pre-election spending splurge to massage down the country's stubbornly high unemployment figures, though there are respectable arguments for boosting the economy even if that did widen the deficit, particularly as membership of the euro club means that Germany can no longer give itself a stimulus by cutting interest rates.

The stability pact is also causing tension between Germany's federal government and its 16 *Länder*, or states, which have caused more of the deficit's increase. “The *Länder* are still behaving as if the euro did not exist,” fumes a federal official.

But the biggest danger is still that Germany may break the 3% deficit limit later this year. Senior commission people believe it may happen. The commission's forecast of a deficit of 2.7% this year is based on an assumption that Germany's economy grows by 0.75%, which may well prove optimistic. *The Economist*'s poll of forecasters puts this year's growth at 0.6%. Last year the German government predicted a deficit of 1.5% but the actual figure was 2.6%. Clearly, a similar underestimation this year would smash the 3% limit and present the EU with a nasty dilemma.

European diplomats whisper that of course it is inconceivable that any country would ever really be subjected to the sort of fines laid out in the stability pact. No matter that it is now part of European law and that the European Central Bank has insisted on its enforcement; nor that the get-out clauses written into the pact are tightly defined and that Germany seems unlikely to qualify for them. Somehow a way would have to be found to get Germany off the hook.

Would that matter? Some economists think that the pact was always a stupid idea: the sooner Europe is shot of it the better. Without it, argue critics, the markets would simply mark down the debts of profligate countries without damaging the euro's fortunes as a whole. But the pact's backers say it is essential to enforce fiscal rigour and to prevent countries running irresponsibly wide deficits that would push up interest rates across the euro-zone. They also argue that a long-term mechanism for ensuring fiscal responsibility is needed, since government debt and unfunded pension liabilities are large. They fear that abandoning the pact would hurt the euro's credibility in the eyes of the markets.

That credibility is already pretty low. This week the euro once again slid against the dollar and is threatening to hit its lowest point ever. But nobody knows for sure how the currency markets would react were the pact to be diluted or even scrapped. Like everybody else, the markets are still trying to puzzle out what to make of this new transnational currency—and what is needed to make it work.

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Enlarging the European Union

To get them in, cut the costs

Jan 31st 2002 | BRUSSELS
From The Economist print edition

The European Commission offers its ideas. Groans all round

Get article background

Who'll save the Poles' bacon?

IN PRINCIPLE, the 15-country European Union loves the idea of taking in another dozen or so countries, mainly in Central Europe. The practice is trickier. The biggest snag is that the would-be newcomers are poor, and have a great many farmers. Since today's EU devotes 80% of its budget to aiding farmers or poor regions, simply extending its current policies eastwards would cost existing members huge sums.

This week the European Commission unveiled its first detailed plan to solve this difficulty. One is badly needed: the EU has promised to try to complete negotiations with ten of the applicants by the end of the year. The commission's solution involves drastically watering down the regional and agricultural aid on offer to them.

The EU's biggest single subsidy to farmers these days is “direct payments”, simple income-boosters. The commission suggests limiting these in new countries to 25% of the level now paid in existing ones, rising to 100% over the first ten years. It argues that immediate direct payments on western levels to Polish or Hungarian farmers would harm their own societies by making farmers unduly rich by local standards.

The proposed solution on regional aid is similar. On current criteria, virtually every region in Europe's east would qualify for generous EU aid. This would imply either a large increase in the EU budget or a big switch of resources from today's poor regions in places like Spain and Greece. But the EU invokes a rule that no country can receive regional aid that is more than 4% of its GDP. Any more than that, so the theory goes, could not be safely absorbed. Conveniently, given the small economies of the eastern applicants, the 4% rule would tightly limit how much they could get.

So Spain, though twice as rich as Poland, would probably still get far more regional aid. The commission estimates that by 2006 the new members would be receiving regional aid worth *euro*137 per citizen, against an average of *euro*231 for Spain, Portugal, Greece and Ireland.

The applicants are cross. “How are we meant to explain to our farmers”, asks a Polish diplomat, “that their rich German neighbours will get four times as much financial help as they do?” But countries already in the EU may not be delighted either. Ailing Germany is by far the largest net contributor to the EU budget. It is worried by the long-term implications of the commission's proposals for farm subsidies. “If the common agricultural policy is not properly reformed,” says a German diplomat, “our total contribution to the EU could triple in a decade.”

The fear is that once countries like Poland are in the club, and are put on “the drug of direct payments”, they will block farm reform—and countries like Germany, Britain and the Netherlands will have to pick up the bill. But if the Germans and others insist on a proper farm-policy reform before the enlargement negotiations are over, the delay could be indefinite.

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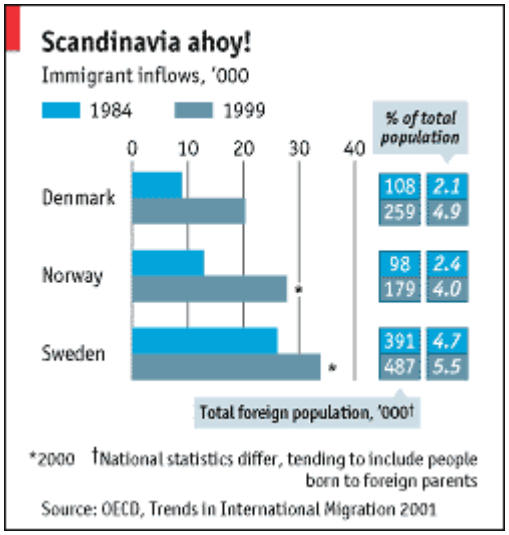
Immigrants in Sweden and Denmark

The worries and the welcomes

Jan 31st 2002 | COPENHAGEN
From The Economist print edition

Help them, or keep them out?



THE murder of Fadime Sahindal, a young Kurdish woman, in the Swedish university city of Uppsala was no ordinary affair. Her father shot her in the head, in front of her mother and younger sister, for refusing an arranged marriage with a stranger from her Turkish homeland.

The killing has stunned Swedes. Thousands have joined torchlight vigils in her memory. Thousands more are expected to attend her funeral in Uppsala's Lutheran cathedral. Miss Sahindal was an outspoken champion for second-generation immigrants seeking their own way of life, often against their more tradition-minded parents' wishes. Mona Sahlin, Sweden's immigration minister, called her “a fantastic role model for young women”.

The murder has also touched a raw nerve in Sweden by questioning the country's ability to integrate its ethnic minorities. Issues such as forced or arranged marriages and the clash between Swedish values and those of immigrants have leapt up the political agenda. The problem is not just Swedish. Denmark too worries about integration, and a row about arranged marriages is now blazing there.

But the two governments have taken different approaches. After Miss Sahindal's death, Sweden's ruling Social Democrats said they would give more cash to crisis centres and support groups for young women seeking to avoid arranged marriages or to leave violent partners. They also said they would close a legal loophole that lets foreign girls as young as 15 marry, when 18 is the threshold for everyone else. The tone of Swedish ministers was one of sympathy for victims of forced marriages.

Not so in Denmark. Foreigners—or at least immigrants—plus their descendants for a couple of generations make up about 7% of the population. No vast figure, and foreign need not mean brown or black. But the new centre-right coalition was helped to power in November by a promise to curb immigration, and at times will need votes in parliament from the overtly anti-immigrant People's Party, which made large gains. The government has chosen to take action at the border. Till now, the foreign spouse of a Danish resident was entitled, automatically, to come in with a residence permit. But under proposals unveiled last month, this—with some exceptions, maybe—would no longer be true, even for Danish citizens, if either person was aged less than 24 (unless, of course, the incomer was a Dane or other EU citizen). Even for a couple both aged 24 or more, the permit would not be automatic; cases would be decided individually.

The Danes are also making it harder for foreigners to come to Denmark to join family members already there. The reason, they say, is that unemployment among young immigrants is already too high. Human-rights campaigners suspect grubbier motives: to keep Denmark's proportion of brown and black residents below 10%.

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A political crisis in Albania

Bad news for the (fairly) good guys

Jan 31st 2002
From The Economist print edition

The ousting of a reform-minded prime minister looks grim for Albania

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AP

Meta couldn't keep it up

IN A country where blood feuds between families run for generations, it is not surprising that embittered politicians should seek revenge. Fatos Nano, leader of Albania's governing Socialists (who were once Communists), is an example. The populist Mr Nano has served twice, unimpressively, as Albania's prime minister. He was also put in prison for three years after being sentenced in what he says was a biased court for embezzling state funds; the conviction was later overturned. More recently, he has been stirring people up against Ilir Meta, a former weightlifter and fellow Socialist, aged 32, who has struggled gamely to set reforms in motion since he became prime minister two years ago.

When Mr Nano started making trouble, Mr Meta at first tried to keep him sweet. Last month he agreed to put some of Mr Nano's friends in the cabinet. But this week, accusing Mr Nano of setting impossible new conditions, Mr Meta resigned.

Mr Nano wants to be president, a job with little power but quite a bit of prestige and some nice perks. Winning it would be sweet revenge for Mr Nano over his bitterest rival, Sali Berisha, post-Communist Albania's first president and still leader of the opposition Democrats, under whose reign Mr Nano was put in prison. But Mr Meta, supported by Albania's western friends, has refused to back Mr Nano for the presidency, on the ground that the Socialist incumbent, Rexhep Meidani, a polite professor of physics who stays above the party fray, is doing the job perfectly well.

Albania's 140 MPs are not due to elect a president until July. It had looked as if the Socialists and their allies in three other parties in the ruling coalition would have the votes to give Mr Meidani another five-year term. But Mr Nano has won over enough Socialist MPs to block his re-election. He has also been gaining popularity among Albanians at large by calling Mr Meta's government feeble and corrupt.

It was only last June that Mr Meta led the Socialists to a second straight victory in Albania's most peaceful general election to date. He promised to bring Albania closer to the European Union and, above all, to improve the country's crumbling infrastructure, especially roads and the electricity system. So far, so bad. This winter Albanians have been suffering daily power cuts of up to 18 hours, as ageing hydro-electric plants fail to cope with rising demand. Without electricity to power the pumps, water frequently runs out too.

Moreover, despite Mr Meta's pledges to crack down on bribe-taking by tax and customs people, and to make public-procurement contracts more open and the judiciary more effective, corruption is still rife. Several of Mr Meta's ministers, including Anastas Angjeli, who runs finance, have been accused of shady dealings. Albania is still awash with weapons, some left over from the war in Kosovo. It remains a favourite route for international traffickers taking illegal immigrants, heroin and prostitutes to Western Europe.

Yet Albania in other respects has made notable progress under Mr Meta. Since he took over in 1999, the economy has been growing by over 7% a year, the highest rate in the Balkans, albeit from a low base. Remittances from the 500,000 Albanians working abroad, mainly in Greece, worth perhaps $500m a

year, are increasingly invested in small businesses rather than being used to support unemployed relations. Foreign investors have returned: Vodafone, a British company, last year launched a second mobile-phone network to compete with a fast-growing Greek-owned operator. Several respectable EU-based banks are interested in buying Albania's state-owned Savings Bank, one of several privatisation sales due this year.

Albania was due to start negotiations with the EU, perhaps as early as next month, on a “stability and association agreement” similar to the ones signed with Croatia and Macedonia, in the hope of eventually joining the EU club. The latest crisis may put all this back.

Despite Mr Nano's revival, Mr Meta is not out of the game yet. He still more or less controls the Socialist party machine that will name the next prime minister. But his appointment would have to be approved by parliament. Some MPs, even in his own party, have turned against him.

A compromise candidate may be mooted, perhaps Arben Malaj, who heads the Socialists' block in parliament. But he is tainted by allegations of involvement in the pyramid savings schemes whose collapse in 1997 dished Mr Berisha's government and plunged Albania into violent anarchy. The Socialists may even split, with Mr Nano forming a new group, prompting another general election. Reforms (and cash from abroad to support them) would be put off. So would investors. The beneficiaries would be Albania's drug barons and traffickers in human cargo.

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Turkey and its Kurds

A turn for the worse

Jan 31st 2002 | MERSIN
From The Economist print edition

Turkey's Kurds are getting angry again. Not surprisingly

WHEN, nearly three years ago, Fazil Turk became the first representative of the pro-Kurdish Hadep party to be elected mayor of Akdeniz, a bustling commercial quarter in the Mediterranean port of Mersin, the local soldiery were not amused. After all, they had been fighting a Kurdish insurrection in the hinterland for 15 years and had long regarded Hadep as a political front for the rebels. Mr Turk was chuffed, however, to be invited to the army's annual Victory Day celebrations. “I thought it was great,” he recalls. “We weren't going to be treated any differently from other political parties.”

It was not to be. When he turned up, fellow mayors from Mersin's other districts trooped in unhindered—but he was turned away at the entrance. After that, though, Mr Turk's relations with the armed forces gradually seemed to improve. Last year the local naval commander sent Mr Turk an invitation by hand, and this time he was allowed in. “They've come to realise that we're not enemies of the state and that we want to live in unity and peace with our Turkish brothers,” he says.

Mersin is one of three Turkish cities—the others are Izmir and Adana—outside the country's predominantly Kurdish south-east where Hadep candidates were swept to power in local elections in 1999, on the votes of thousands of Kurdish migrants displaced by the long rebellion of the outlawed Kurdistan Workers' Party, known as the PKK. Mr Turk's apparent honesty and his readiness to look after the interests of all his constituents, be they Kurds, Arabs, Turks, Orthodox Christians or Jews, earned him the trust and respect of the local authorities.

Other Hadep politicians too have made their mark. One of them, Emrullah Cin, has been sowing the seeds of drastic social reform in Viransehir, a drab town of 16,000 on the edge of the mainly Kurdish zone. Facing down crusty tribal chiefs and meddlesome mothers-in-law, he has—among other projects—founded a smart new health clinic where nurses speaking in Kurdish teach peasant women to use contraceptives. Such is the clinic's success that the wives of local policemen have begun to pop in for free prescriptions. The authorities have not intervened, as they would have done a few years ago.

Elsewhere in western and central Turkey, cultural barriers have fallen. A thriving bar in Ankara, the capital, plays live Kurdish music just a few minutes' walk from parliament.

But deeper in the Kurdish heartland the mood is much less happy. Between Diyarbakir, the largest and predominantly Kurdish city in the south-east, and Hakkari, near the border with Iraq, some 30 Hadep mayors are routinely harassed, their offices sometimes ransacked by security forces. Many have been

repeatedly detained. Others have been accused, often with scant evidence, of taking orders from the PKK. Hakkari's Hadep mayor was charged with subversion for publishing a calendar in English and Kurdish. Mr Cin says that every project for which he has sought financing from the central government in Ankara has been rejected.

A retrograde move

The mayors' plight reflects the continuing refusal of Turkey's topmost civilian and military rulers to attend to the demands of their country's 12m or so Kurds, nearly a fifth of Turkey's total population. This is a step back. In September 1999, when the PKK called off its armed rebellion on the orders of its captured leader, Abdullah Ocalan, and withdrew nearly all its 3,000-5,000 fighters into northern Iraq, there were signs that the government might feel confident enough to give non-violent Kurdish politicians a longer leash.

Turning a deaf ear to more militantly nationalist Turks calling for Mr Ocalan's execution, the government decided to let him stay alive in prison on an island in the Sea of Marmara, not far from Istanbul, even though a court had sentenced him to death for treason. Since then, Mr Ocalan has repeatedly said he no longer wants an independent Kurdish homeland and that a grant of wider cultural rights, which would have to include at least a lifting of the ban on broadcasting and education in Kurdish, would be enough.

But Mr Ocalan's efforts to switch his campaign from armed rebellion to politics seem to have failed to sway the authorities, who still appear bent on pursuing the decades-old policy of forcing the Kurds to assimilate with the Turkish majority. Security forces in the eastern city of Van recently rounded up some 500 students for signing a petition calling for the right to be educated in Kurdish. Elsewhere across Turkey, hundreds of other Kurdish students and their parents have been arrested, and sometimes beaten and jailed, for airing similar demands in a new campaign which the authorities insist, probably rightly, is orchestrated by the PKK. Despite legislation in October that was meant to loosen the curbs on Kurdish broadcasting, local radio stations that dare to air Kurdish tunes are still heavily fined.

Worse, killings of suspected Kurdish nationalists, which had fizzled out after the PKK's ceasefire, are once again on the rise, according to the Turkish Human Rights Association. Osman Baydemir, a young lawyer who runs its Diyarbakir branch, lists a string of alarming incidents.

What has prompted this apparently harsher behaviour by the security forces towards the Kurds? Some say that the West is turning a blind eye to official brutality because it is grateful to Turkey for being foremost among Muslim countries in backing the campaign against al-Qaeda. “The government believes that it can do whatever it wants now and the West will look the other way,” sighs Mr Baydemir.

Is the West being too kind?

Moreover, the EU does not want to upset the Turks over some other matters. Lately they have been helpful over two particular issues: Cyprus, and the EU's planned rapid-reaction force. The Turkish government is considered at least partly responsible for persuading Rauf Denktash, leader of the breakaway ethnic Turks in Cyprus, to hold face-to-face meetings with his Greek-Cypriot counterpart after years of non-speaking. And Turkey has pleased both its European allies and the Americans by dropping its objections to a European force that would have access to equipment and other assets belonging to NATO, of which Turkey is a keen member.

But some of the EU's leaders will want to tell Turkey that it stands no chance of joining their club if Turkey's constitutional court bans Hadep on the ground that it is the PKK's political arm. Hadep, for its part, would help itself if it were to drop its refusal to label the PKK as terrorists. Were it to do so, it would win more trust not just from the Turkish authorities but from Turks at large, most of whom doubt the sincerity of Hadep's proclaimed commitment to peaceful politics. True enough, thousands of Kurds who vote for Hadep do also continue to sympathise with the long-violent PKK.

As pressure against Kurdish nationalists of all stripes rises again, the PKK has indeed threatened to resume its war. In October, after security men wearing ski masks stormed a municipal worker's home and shot him dead without an adequate explanation, thousands of locals went out on to the streets in the town of Dogubayazit and took over a local police station. Few Kurds have the stomach for another long rebellion. But, at least in the Kurdish south-east of Turkey, many still passionately demand some cultural

autonomy. It may prove foolish to ignore them.

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Belarus

Cracks in the concrete

Jan 31st 2002
From The Economist print edition

Some Belarussians are complaining about their wayward president

IS SOMETHING at last changing in poor Belarus? After its authoritarian and capricious president, Alexander Lukashenka, won a crushing victory in a rigged election last year, there seemed little hope for change in Europe's least democratic country. Since then two things have happened.

One was a turn for the worse. Mr Lukashenka started locking up, on flimsy-sounding fraud charges, a bunch of the country's industrial bosses. This was strange, as their fridges, tractors and so forth are among the few sellable products that Belarus makes. Their real crime seems to have been a failure to support the president vigorously enough during the election campaign. More odd, and encouraging, are the new signs of dissent in the ranks of the elite.

The most startling came on January 16th, when the chairman of the newly created upper house of parliament, Alexander Vaitovich, bluntly criticised the president's penchant for rule by decree. The decrees, he said, “sometimes come as a complete surprise to the public. They are drawn up by a narrow circle of experts and simply cannot take into account all the possible consequences.” Law-making by parliament, said Mr Vaitovich, worked better. Interestingly, the criticism was published in the president's own newspaper, the aptly named *Sovietskaya Belarus*. Two weeks later Mr Vaitovich criticised Belarus's foreign policy, in particular the recent denial of a visa to Hans-Georg Wieck, a retired German diplomat who as head of an international human-rights mission in Minsk, Belarus's capital, had been one of Mr Lukashenka's most tireless critics.

On a trip to Libya (one of Belarus's few remaining friends), the foreign minister admitted that locking up businessmen had hurt the country's image. Another squawk came from a senior member of the lower house of parliament, Vasil Khrol. He blamed the president for breaking his election promise to liberalise the economy: “We have wasted four months already. If this stagnation continues, history will never forgive us.” On January 29th the chairman of the government's securities outfit, Valentin Shukhno, complained about the backwardness of Belarus's state-controlled financial exchange.

All this comes after months when Mr Lukashenka had vengefully crushed the remains of the opposition and closed down most of the independent press. His empty promises of reform have made the contrast between his country's stagnant economy and the relative prosperity of its neighbours ever more embarrassing.

The question now is how the president will react. Disloyalty in Belarus is dangerous. In the past, officials who wobbled in their support for Mr Lukashenka have disappeared, probably because they were murdered. Mr Vaitovich and the others may be very brave or very fed up. Or maybe they feel the winds of change.

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Charlemagne

Alain Madelin, failing for France

Jan 31st 2002
From The Economist print edition

Why don't French voters like economic liberals or libertarians?

THATCHERITE, economic liberal, free-marketeer: in George Bush's America, even in Tony Blair's Britain, these are labels many politicians wear proudly. But France is exceptional: a country of *solidarité*, where producer counts as much as consumer, worker as much as customer. As Edouard Balladur, a former prime minister of the centre-right, once explained, free markets work by "the law of the jungle, the law of nature"; civilisation's function is to "struggle *against* nature".

Hence France's funny arithmetic this week. The Socialist-led government sent three ministers to that annual jamboree of globalisation, the World Economic Forum, this time in New York rather than Davos, where it usually gathers. But six other, albeit more junior, ministers, along with two senior Socialists and a trio of presidential hopefuls, trooped off to the counter-globalisation summit in Brazil's Porto Alegre. So, it should be noted, did a clutch of right-wing politicians. In short, ambitious French politicians, whatever their ideological hue, do not seek the "Anglo-Saxon" labels that attach to the free market; they shun them.

Except, that is, Alain Madelin, the 55-year-old leader of the Liberal Democracy party. He imagines himself as France's next president—the contest's first round is on April 21st—and is willing to endure all the ordeals this fantasy involves: ghastly "dinner-debates" in endless small towns, appearances on every possible television chat-show, instant quotes for every idiot journalist.

All for what? Mr Madelin will be lucky to get 5% of the vote in round one. In September, when he sought to rally his supporters in Tournus, he drew a crowd of 700 activists. The same day Jean-Pierre Chevènement, leader of the left-wing Citizens' Movement and once the interior minister in Lionel Jospin's current coalition government, launched his own presidential campaign before a throng of over 5,000. So why on earth is Mr Madelin, three times a minister in conservative governments of the 1980s and 1990s, intent on inevitable humiliation?

The first answer is the politician's cliché: "I'm running to win." Then comes the realistic rider: "Or to make the best score possible. I'm not in politics to be a minister but to carry out ideas." Of course, the one does not exclude the other: as minister of industry in Jacques Chirac's conservative government of the late 1980s ("cohabiting", thanks to the electors' whim, with a Socialist president, François Mitterrand), Mr Madelin first cut his ministry's budget, then hailed an industrial revival.

But ministerial duties and ideas do not always go happily together: as trade minister in the Balladur government of 1993-95, Mr Madelin constantly jibbed at the government's refusal to let the franc fall, correctly predicting a recession. And when he was appointed Alain Juppé's minister of finance in 1995 he lasted a mere three months, accusing his prime minister of being "maladroit" in trying to enact the liberalising reforms they had earlier both agreed on. The Madelin view is that he would have managed the reforms a lot better. "I know how to deal."

Maybe. Mr Juppé is the sort of egg-head *énarque*—a graduate of the elite Ecole Nationale d'Administration—who for the average voter epitomises unfeeling remoteness. By contrast, Mr Madelin, a Renault factory worker's boy, can claim to be a man of the people. He spent his schooldays learning how to bash metal before deciding to get a law degree. Is that why, when students from posher backgrounds (witness Lionel Jospin, the Socialist prime minister and presumed presidential candidate) studied Trotsky, the young Madelin flirted with the populist far right? Is it why, when the left was enthusing over Algeria's independence, the teenage Madelin was protesting at France's abandonment of the *Harkis*, those Algerians who had sided with France. The explanation is curt: "I was dead against the Communists."

Lonely libertarian

Why? Candidate Madelin says he passionately opposes any form of totalitarianism, left or right, so would “surely in 1940 have fought against Nazi totalitarianism and the Vichy regime.” His is the response of an instinctive libertarian: “Give a man back his liberty and responsibility. Give him the chance to blossom and succeed.” Last summer Mr Madelin was the guest speaker at the 200th birthday celebrations of a previous French libertarian, Frédéric Bastiat. Just like today's Mr Madelin, Bastiat railed against the absurdities of protectionism and the interfering stupidity of the state, satirically proposing in parliament that the government should protect France's candlemakers from the “ruinous competition of a foreign rival”—namely, the sun.

Unhappily for Mr Madelin, few Frenchmen have read Bastiat. Modern France's instinct is to look back not to Bastiat's liberalism but to the 17th-century protectionism of Colbert, Louis XIV's finance minister. Mr Madelin calls for “a new France”. He vows to free the schools from the rigid hand of the state; to reform the judicial system with more police and kinder prisons; to simplify taxes and cut income tax to a maximum of 33%; to devolve power not just to troubled Corsica but to all France's regions; to let French workers retire at the age they want, with a better choice of pension; and to let workers shelter part of their taxable income, as in America, with donations to charity. “The new France is for me a France that asks a little less of the state and puts a little more trust in the French.”

Will the French respond, entrusting their future to President Madelin? Of course not. They prefer to forget how much globalisation has benefited them: France is, after all, the world's sixth-biggest foreign trader. Instead, they laud the “peasant” leader José Bové, swallowing his line that McDonalds and Rocquefort cannot coexist. The politicians then follow where the voters lead. If Mr Madelin is to persuade his countrymen to think otherwise, he had better hope that President Jacques Chirac wins a second term, and makes him once again a minister—or at least listens to his ideas.

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Euro referendum

Will he, won't he?

Jan 31st 2002
From The Economist print edition

Britons have long been Europe's most reluctant citizens, but opinion on joining the euro looks as if it's shifting, making a referendum more likely

Get article background

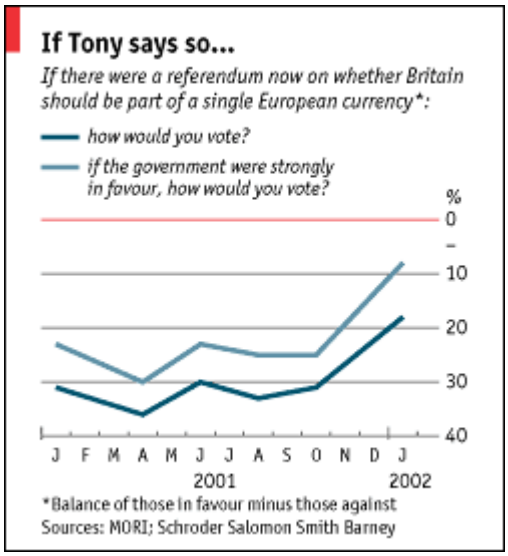
TONY BLAIR wants to hold a referendum on joining the euro, but he cannot do it without the assent of chancellor, Gordon Brown. Mr Brown mutters about the economic tests he has set which must be passed before Britain joins. The cabinet, silenced by his fiat, says nothing. The Conservative opposition, itself divided, shuns the issue. In this vacuum, business leaders complain about policy drift and journalists are left to speculate.

This is where the most important political question facing Britain has been stuck for some time, but things may be changing. The Labour Party chairman, Charles Clarke, one of the few ministers licensed to speak on the issue, has called this “the decisive year”. Other ministers say privately that if Britain is to join the euro before the next general election (2005-06), a view will have to be reached (though not made public) on the economic tests by the time the party's annual conference begins on September 29th.

This week the Treasury has stepped up its work on the economic tests. It signed up to use the global model of the National Institute of Economic and Social Research, which can be used to forecast international developments such as changes in European interest rates, and asked Simon Wren-Lewis of Exeter University, Britain's foremost expert on currency economics, to investigate the appropriate long-term pound-euro exchange rate.

A decision by the government this autumn would allow the queen's speech in November to include a referendum bill, and the campaign to begin in earnest early next year. May 2nd has been pencilled into Whitehall diaries as a referendum date.

Shifts in public opinion have encouraged those who want to go ahead. A MORI poll published last week (see chart) shows weakening hostility towards the euro. If the government were to recommend joining, the balance of opinion against joining the euro falls to 8%, a drop of 17 percentage points since September. Opinion reflects class and income divides. Social groups A and B (professionals and managers) are strongly pro-euro. There is also now a small majority in favour among C1s (skilled workers). Only C2s, Ds and Es (semi-skilled, unskilled and manual workers) remain opposed, but this group tends to change its views more and is anyway less likely to vote. Another poll, by NOP, suggests that a small majority would now vote in favour of joining if the government came out strongly in favour.



This shift, along with the trouble-free introduction of euro notes and coin, has encouraged the “let's-go-for-it” faction in the cabinet. One minister now describes a referendum as “eminently winnable”.

Ministers are either in favour or publicly silent. (For their private views, see chart.) John Prescott, the deputy prime minister, once sceptical about all things European, is said to be softening. A group of 28 left-wing backbench MPs recently wrote to the *Guardian* warning that the euro was “a costly distraction” from the task of improving the public services. But a prime minister at the head of a 400-strong parliamentary party can afford the odd rumble of dissent.

Still, without Mr Brown's confirmation that his ill-defined economic tests have been met, there will be no referendum. Mr Brown has a veto. One of the chancellor's colleagues said this week: “It is unthinkable that we will go forward without Gordon's solid support.” But the costs of exercising that veto would be high. It would further damage the chancellor's already tense relationship with the prime minister and, thus, his own leadership ambitions.

Euro-enthusiasts see two big hurdles that still have to be overcome before the government can commit itself. The first is that the European Central Bank must begin a process of reform. The Centre for European Reform is shortly to publish a study on how the bank can be made more accountable. The Treasury awaits it with interest.

The second hurdle is the weakness of the euro, which is itself tied in closely to the performance of the European economies. The Treasury believes that the pound is far too high, which is one of the reasons why Britain's export performance in the past four years has been the worst in the EU. According to the Treasury, entry at anything like the current exchange rate of £1 to *euro*1.64 would be a disaster. The chancellor is not prepared to talk or massage sterling down, and the Treasury does not share the view widely held in the City that the pound would fall sharply if a referendum were announced. Much therefore depends on how the European economies perform in the next few months.

Where they stand

Let's go for it	
Tony Blair	Prime minister
Robin Cook	Leader of the House of Commons
Lord Irvine	Lord Chancellor
Jack Straw	Foreign secretary
Stephen Byers	Transport secretary
Geoff Hoon	Defence secretary
Lord Williams	Leader of the House of Lords
Patricia Hewitt	Trade and industry secretary
Tessa Jowell	Culture, media & sport secretary
Charles Clarke	Labour Party chairman
Peter Hain	Minister for Europe
Helen Liddell	Scottish secretary
Clare Short	International development secretary
The time isn't right	
Gordon Brown	Chancellor of the exchequer
Alastair Darling	Work and pensions secretary
Andrew Smith	Chief secretary to the Treasury
Don't much like it	
Margaret Beckett	Environment secretary
John Prescott	Deputy prime minister
David Blunkett	Home secretary
Alan Milburn	Health secretary
Keeping very quiet	
Estelle Morris	Education and skills secretary
John Reid	Northern Ireland secretary
Dead against	
Sir Edward George	Governor, Bank of England

Source: *The Economist*

The arguments for Mr Blair moving soon are growing. He has always made clear his belief that Britain's future lies in Europe. Backing off now would weaken him. And there is growing confidence in Number 10 that, if the brooding chancellor can be brought on side, the referendum can be won.

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Anti-terrorism

Farewell, Londonistan?

Jan 31st 2002
From The Economist print edition

Anti-terrorism legislation is driving Islamist extremists out of Britain

SIX more Muslims were arrested on January 29th in Teesside and Darlington in the latest raid for suspected supporters of Islamic terrorism. Dozens are now being held on suspicion of supporting al-Qaeda. Islamists are beginning to think that the new anti-terrorism laws could crush the *jihad* movement in Britain.

Time was when North African diplomats called Britain “Europe's terrorist heaven”, and its capital was known as Londonistan. Hundreds of veterans of *jihad* struggles in Afghanistan and North Africa settled in Britain. Where else, they ask, could terrorists receive housing, unemployment benefit and legal protection just by applying for asylum? For some of the *jihadis*, London was a retirement home. For others, it was a communications base. For a few, it was a logistical and financial centre. And for all, it was a haven. Aside from rare attempts at abductions by foreign intelligence agencies, Britain was safe.

That changed after September 11th, when Britain, alone among European countries, adopted emergency anti-terrorism legislation. The new laws allow foreigners to be detained indefinitely without trial.

Nobody knows quite how many *jihadis* there are in Britain. Algerian sources in London estimate that from their country alone there are more than 150 people who fought in Afghanistan, and several hundred more who fled from fighting in Algeria's ten-year civil war.

The new laws have already put dozens of *jihadis* behind bars, including some of the more conspicuous members of themovement, such as Adil Abdel Bari, Egyptian Jihad's favourite solicitor, and Yasser al-Seeri, who ran a *jihadi* press agency from St John's Wood, a smart residential area of north London.

More are taking fright. Al-Seeri's supporters have circulated a letter he sent his wife about what it's like being a Category A prisoner in a high-security jail. The letter complains of repeated demands to strip naked, body searches by women and incarceration for 23 hours a day. Other leaders, such as Abu Qatada, known as al-Qaeda's European spiritual leader, have gone into hiding.

Djamel Ajouaou, a Moroccan arrested in December on suspicion of terrorism, says that, for all its talk of human rights, Britain is now less safe than North Africa. He has opted to return home. While the Egyptian government can legally detain suspects for 45 days, in Britain they can be detained indefinitely without trial.

Queues have formed outside the Algerian consulate in London, as fears of a mass internment grow. Islamist leaders in Britain are advising armchair *jihadis* to return home to resume the fight. Better to be in a prison in one's own country than in Belmarsh, says a London-based *jihadi*, wanted for extradition by a North African government.

The Home Office says that its laws target no more than a couple of dozen suspects. But half of Britain's 2m Muslims are foreign nationals, and fears of a witch-hunt are tightening the bonds between Muslims. Mosques report an increase in Friday prayers and the donning of veils. The practice, once common just amongst *jihadis*, of adopting pseudonyms is now spreading among other Muslims. Even 17-year-olds now address each other as Abu (father of) Somebody, the traditional *nom-de-guerre* form for grown-up *jihadis*.

The new laws are certainly driving some *jihadis* out of Britain, but they have also lent a new fervour to the movement. Al-Muhajiroun, an Islamist group, claims a dramatic increase in members. American officials have labelled its followers “potential terrorists”. It says it is a think-tank. Either way, it is riding

high.

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The post

A first-class scrap

Jan 31st 2002
From The Economist print edition

The regulator wants swift liberalisation of the postal service. More competition, especially from Europe, risks weakening Consignia further

CONSIGNIA, Britain's postal operator, has been fighting for years to protect its market. Whenever the European Commission gets serious about opening the European postal market to competition, as it did again last year with plans for a new directive, it has been Britain and France, another coddled monopoly, that have jointly led opposition. “Death by a thousand cuts” is the defensive slogan adopted by Consignia's managers.

On January 31st Postcomm, which regulates the British postal system, delivered the equivalent of a swift dagger thrust to the heart. It proposed reforms which, if adopted after a last round of negotiations, will mean that Consignia faces competition on 40% by volume of the market for bulk mail from April 1st. Two years later, a further 30% of the market will be opened, and, almost as an afterthought, full liberalisation will occur in 2006.

Bulk mail—tax forms from government, for instance, and credit card offerings from companies—is the engine of any postal system, accounting for up to 90% of letters. Moreover, it is one of the most profitable activities, supporting other, uneconomic, services. Some 30% of Consignia's revenues comes from the 40% which will shortly be opened for competition. When 70% of the market is open, 60% of Consignia's revenues will be vulnerable.

The proposals will force Consignia and Postcomm into a fierce battle. The operator argues that, because it is already losing money at an alarming rate, it cannot withstand further short-term pressure. It wants time to become more efficient. It recently installed Allan Leighton, a respected retailer, as its interim chairman. It has announced £1.2 billion of planned cost cuts, and implied that more might follow once it works out how to handle growing discontent among its trade union members. It also says that its expensive universal service obligation, under which a letter costs the same no matter where it originates or is to be delivered, is a precious public good that should not be eroded.

Postcomm snorts that Consignia cannot be relied on to become more efficient while it remains a monopoly. The regulator reckons that only competition can shake Consignia into action and that once prodded into greater efficiency, its financial performance will improve dramatically. Postcomm has adopted a tough stance against price increases that would help Consignia to make a profit. By implication, the regulator thinks the universal service is in no danger provided Consignia gets its act together.

The danger for Britain is that, while the two sides argue, they are missing the European dimension. The European Commission is committed to full liberalisation of postal services across Europe by 2006. But it intends to get there gradually. Indeed, it expressly decided not to liberalise bulk mail overnight, accepting that this would be too painful for incumbents required to deliver a universal service.

By exposing Consignia to competition so quickly, Postcomm runs the risk that it will further weaken an already shaky service by allowing a challenge from strong European competitors. TPG of the Netherlands, which was privatised early, is flourishing because it has built an efficient business. Deutsche Post has been partially privatised but retains a lucrative monopoly of the letters market. Both will try to use their greater financial muscle to get a grip on the British letters market; and, if they succeed, they will squeeze Consignia's business further still. Whatever Postcomm says, the price of sending a letter would increase significantly, while profits would go abroad.

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Public finances

Where to squeeze?

Jan 31st 2002
From The Economist print edition

If taxes go up, it will probably be through national insurance

THE Treasury announced this week that the budget will be later than usual, on Wednesday April 17th. Already, the guessing game has begun on what it will contain. This week, the Institute for Fiscal Studies (IFS) unveiled its assessment.

All budgets matter, but this one more than most. At stake is Labour's election pledge to improve the public services. Generous allocations of money in the 2000 spending review are currently feeding through to rapid growth in vital areas like the NHS and education. But this largesse is assured only until spring 2004, when current plans end. These specific departmental commitments will be extended to spring 2006 in this summer's biennial spending review. But the overall framework for total expenditure will be established in the April budget.

So how much room for manoeuvre does Gordon Brown, the chancellor of the exchequer, have to raise spending without increasing taxation? The government has two guiding principles for its fiscal policy. Firstly, debt must be sustainable, which the Treasury has interpreted to mean a level of net public debt no higher than 40% of GDP. The second is the “golden rule”— that current spending should be covered by current receipts, so that any borrowing is only to finance investment.

Since debt has fallen to only 31.6% of GDP, the government can borrow quite heavily for some time to finance investment without breaching the first rule. So there is nothing to prevent steep increases in public investment.

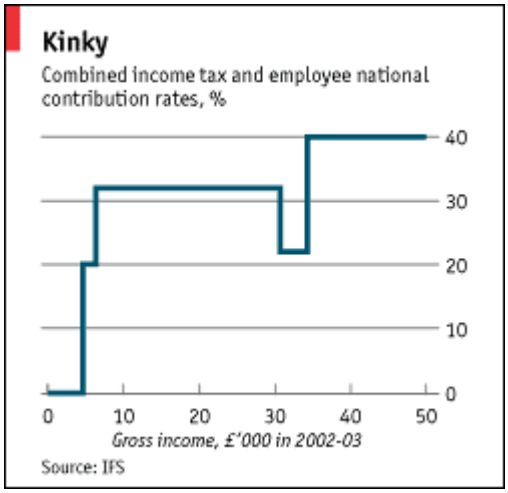
The rules are stricter in relation to current spending. In November's pre-budget report, the Treasury forecast much lower current-budget surpluses over the next four years than in the 2001 budget. Simply to restore the chancellor's earlier, more cautious, projections, the IFS estimates that taxes will have to rise by £5 billion. If current spending is to continue growing faster than the economy from 2004-05, rising at, say, an annual rate of 2.75% in real terms, taxes will have to rise by an additional £1 billion a year. That would mean an extra tax bill of £7 billion by 2005-06.

Much hinges on whether the chancellor needs to be as cautious as before. Andrew Dilnot, director of the IFS, accepts that the chancellor could operate with less comfort room than in the past: this would be “less cautious but perfectly legitimate”. Even so, Gordon Brown dropped a pretty broad hint in November that tax increases were on their way. So where will the chancellor strike?

Since Labour ruled out increases in income-tax rates in its manifesto, the most likely option is to raise national insurance contributions (NICs), paid by employees and employers. The full rate of employee NICS is currently 10% up to a pay ceiling which will be £30,420 in the next tax-year. This means that the combined tax rate from income tax and NICs rises with income to 32% and then falls to 22% (see chart) before jumping to 40% once earnings exceed the higher-rate threshold for income tax, which will be £34,515 in 2002-03. Eliminating this anomalous kink in the tax schedule by aligning the employee NICS ceiling and the higher-rate threshold would both make sense and raise almost £1 billion a year.

However, a sizeable tax shortfall would remain. To secure serious sums, the chancellor would have to raise employer NICs: an

increase of one percentage point would raise almost £4 billion. Such a move would discourage job-creation, but this disadvantage might be outweighed by the political advantage. Unlike income tax, employer NICs are not a political totem. If tax rises are on the way, they look the most tempting target.



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Murder in London

Little L.A.

Jan 31st 2002
From The Economist print edition

Estate agents and murderers both favour Clapton Road

ROUND the corner from the Georgian houses on Clapton Square, Hackney, among the discount stores and kaleidoscopic ethnic restaurants on the Lower Clapton Road, police posters exhort passers-by to “Nail the killers in Hackney”. In less than two years, there have been seven fatal shootings and several other murders on, or just off, the Lower and Upper Clapton Roads—a gruesome litany has earned this stretch its new handle: “Murder Mile”.

Hackney is certainly a dangerous borough: it is one of five in London to have a dedicated Armed Response Vehicle; its police routinely wear body armour. But Chief Superintendent Peter Robbins, Hackney's police commander, says that the spate of “executions” in Clapton are “bad luck”—opportunistic crimes committed by hit-men who keep catching up with their victims in the same area. In fact, the Clapton cluster is part of a growing problem afflicting the capital's black community: a ready availability of guns, and a growing zest for using them.

Relations between black people and the Metropolitan police are, to say the least, strained. But in the case of these shootings, says Lee Jasper, who advises Ken Livingstone, London's mayor, on race relations, the community felt it was receiving too little police attention rather than (as is customary) too much. In response, the Met formed Operation Trident, to investigate so-called “black-on-black” violence. Last year there were 21 “Trident” murders in London and another 135 shootings. Compared with, say, Los Angeles, where there were 346 gang-related homicides in 2001, that's small beer. But for London, the brutality and audacity of the violence—sometimes perpetrated on busy streets in broad daylight—is alarming.

Drugs are part of the explanation: rival gangs are vying for control of the trade, occasionally kidnapping each other's “mules”. Detective Chief Superintendent Andy Sellers, who leads Trident, says that some of the killers are the Jamaican gangsters of London folklore, sometimes exacting revenge for incidents that occurred in the Caribbean; others are “home-grown” youths who have graduated from mugging. But much of the violence arises from personal vendettas and petty slights: a quarrel at a New Year's Eve party in Hackney, which ended with a single bullet killing two people, is said to have started when someone trod on the wrong foot.

Such brazenly public outrages ought to be easy to solve. Yet the clear-up rate for Trident murders—around 40%—is less than half that for London overall, partly because of the fear and intimidation that the criminals generate. Earlier this month, two men were convicted for attempting to kill a witness—a brave, but hardly encouraging, example. Katherine Henderson, a consultant at Hackney's Homerton hospital, says that gunshot victims are often ejected from cars onto the pavement outside the hospital, and are generally in a hurry to leave.

The accidental epicentre of the Hackney shootings is Chimes, a nightclub that sits at the junction of Lower and Upper Clapton Roads, opposite the minarets of an enormous mosque. One young man was killed inside the club in 1997, and several have been shot since after leaving it. It is now closed, as is the after-school club for local children organised by its owner, Anthony Brightly. Whereas some think the shootings have been neglected by the media, who presume (sometimes incorrectly) that the victims are criminals, Mr Brightly worries that they have been sensationalised, pointing out that whites also shoot people in London.

But Hackney residents who worry about stigma ought not to. The odd murder, say local estate agents, doesn't deter the young professionals attracted by the area's proximity to the City and by its relatively cheap housing stock (not that cheap, though: a one-bedroom flat in Clapton Square costs around £170,000). One such carpet-bagger says he is unconcerned by the witness appeals and police cordon he

sporadically encounters. If the police don't clean up Clapton, perhaps the housing market will—eventually.

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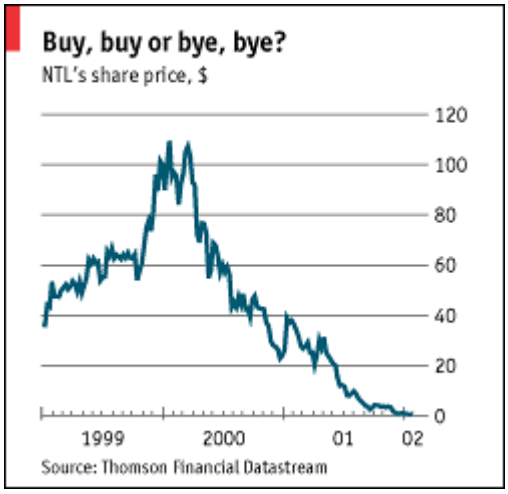
NTL

Untangling the mess

Jan 31st 2002
From The Economist print edition

The prospects for British cable companies are not as bad as they look



BRITAIN'S largest cable operator, NTL, has huge debts, its shares have slumped and it is steadily running out of cash. The root of the problem is NTL's £12-billion debt which its boss, Barclay Knapp, ran up while building the firm's cable network and acquiring smaller rival operators at what now look like vastly inflated prices. Interest payments exceed £3m a day, and the company has enough money in the bank to keep going only for a few more months.

But the trouble is a short-term lack of cash, rather than a deeper strategic problem. Having spent so much building its network, NTL now has no money left to exploit it. The firm has tried to muddle through by cutting jobs, freezing pay, scrapping its marketing budget and slowing or halting the roll-out of new services. It has given up recruiting new customers in favour of trying to hang on to its existing ones—who already complain more than customers of rival operators, according to figures from Oftel, the telecoms regulator. It cannot raise money by selling things off, such as its terrestrial-broadcasting business, because its debt is secured against its assets, so any money raised would mainly have to go towards paying down the debt. In short, the company has painted itself into a corner.

Finding itself at the mercy of its banks and bondholders, who could force it into bankruptcy if it misses any of its repayments, NTL has no alternative but to agree to restructure its debt—a process that, the company was expected to confirm this week, is now under way. The details of the rescue plan, which will not be known for some time, will probably include a debt-for-equity swap, giving bondholders a controlling share of the restructured NTL and massively diluting existing shareholdings. But, says Andrew Heaney of Spectrum, a strategy consultancy, at least NTL will no longer be paralysed. The company has “positive prospects”, he says, once it can reduce its debt to a manageable level.

NTL's cable network is, after all, second in size only to BT's creaky telephone network, and gives it access to over 11m homes, around 3m of which are connected. Now that the network is built, NTL can scale up to serve new customers without having to dig up any more roads. And it can lure customers with the tempting bundle of TV, telephone service and Internet access (including high-speed “broadband” connections)—a combination that satellite-TV providers and BT cannot match.

Furthermore, the prospects for pay-TV are bright, with plenty of room for growth: only 42% of British homes have signed up for it, compared with 86% in America. Monthly subscriptions and year-long contracts mean revenues are predictable and reliable. The cable industry also stands to benefit as television goes digital. Unlike digital satellite or terrestrial systems, digital cable has the advantage of a fast, always-on return path from the consumer to the operator. This makes all sorts of things possible, including interactive content and TV-based Internet access. NTL has been promising such features for months, but the shortage of cash to pay for upgrades and installation means they are still unavailable to many of its customers.

Most observers expect NTL's eventual fate to be a merger with Telewest, the second-largest British cable company, which is not in quite such a mess. Such a merger would make a lot of sense, since the two firms' networks do not overlap and they already co-operate in several areas, including a joint advertising campaign to push broadband Internet. A single cable operator would also provide much tougher competition for BT, particularly in the area of broadband Internet connections, where BT has been slow

off the mark.

Dealing with NTL's debt problem will be unpleasant, and may well cost Mr Knapp his job. But once NTL's creditors have swallowed their medicine, the restructured firm will be able to move forward at last.

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Tony Benn

In his anecdotage

Jan 31st 2002
From The Economist print edition

The fine line between politics and stand-up comedy

IT HAS always been something of a dilemma for retiring politicians. What to do next? After years of running the country on little more than adrenaline, the usual attractions of retirement—golf in Marbella, finally getting round to Proust—may seem a bit tame.

Now the grand old man of Labour politics, Tony Benn, has come up with a novel solution: tread the boards. Last week the 76-year-old Mr Benn, who retired from Parliament at the last election, opened his new one-man show.

Mr Benn, leader of the left wing of the Labour Party during the disastrous 1980s, used to be regarded as a swivel-eyed Trot. The press regularly denounced him as the most dangerous man in Britain. But, as his politics gradually became so eccentric that nobody could take him seriously any more, he metamorphosed from dangerous subversive to stand-up comic, and now he has formalised the transition. Gone are the working-class clubs where he used to peddle his stuff. This week he performed for the impeccably bourgeois citizens of Guildford, who 20 years ago would have been ready to string him up for treason. They loved it. His next venues are the radical hotbeds of Cirencester and Bexhill.

Politicians are natural entertainers and experts at working an audience, so the theatre looks like the perfect retirement home. And Mr Benn might have started a trend. Enter Ann Widdecombe, stage right. The former Tory shadow home secretary and scourge of liberals everywhere (especially in the Tory party) is also taking to the stage. The Ann Widdecombe roadshow will be going to “small venues” nationwide later in the year, giving audiences a chance to catch up on the nuances of her political philosophy that they might have missed during last year's election campaign.

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Bagehot

Twister coming

Jan 31st 2002
From The Economist print edition

The Labour Party can only lose from Britain's end of the Enron scandal

Get article background

YOU can see what Britain's Conservatives are hoping for. George Bush is a popular leader fresh from vicarious victories on the Afghan battlefield. In a smaller and even more vicarious way, so is Tony Blair. But Mr Bush's war leadership has not prevented a cloud of suspicion from settling over the White House following the abrupt collapse of Enron, an energy firm that enjoyed intimate relations with his administration and with many in Congress. With Conservative help, might the gusts of scandal cross the Atlantic and rock Mr Blair too?

By American standards, Enron's influence-buying operation in Britain was minuscule. The Labour Party admits accepting £38,000 ($61,000) from Enron between 1997 and 2000, and the Conservatives (though they briefly "forgot" about this) £25,000. Such donations are not illegal, and all Enron did for Labour was sponsor galas and receptions at party conferences. Being cheap does not, of course, make a political party clean. The government would still be in trouble if it were shown to have altered its policies in return for Enron's cash or favours, a question which the Tories and Liberal Democrats say should be probed by a public inquiry. But the *prima facie* evidence for this is weak.

Ralph Hodge, the former chairman of Enron Europe, admits that Enron's spending was intended to ease access to ministers. The firm wanted the incoming government to drop a moratorium it had clamped on building new gas-fired power stations in order to help the coal industry. In meetings between 1998 and 2000, Enron and other energy firms tried to show Labour ministers the error of their ways. In 2000, the government duly ended its moratorium. But did it do so for £38,000-worth of wine and nibbles, or because it had genuinely changed its mind, or because—as it claims—the moratorium had achieved its aim and was always supposed to be temporary? A benign explanation is certainly plausible. Many disinterested voices, (including *The Economist*'s), also argued against the moratorium; and ending it at a time when gas prices had risen delivered little commercial gain to Enron. As for another "favour" Enron won from the government—approval to buy Wessex Water in 1998—this acquisition was uncontroversial, having been approved of by both the Office of Fair Trading and the industry's regulator.

A second Conservative onslaught concentrates on Labour's relations with Andersen, Enron's disgraced auditor. When Labour won power in 1997 the British government had for more than decade been pursuing a £200m negligence claim against the firm in the American courts. Within months, the new government had settled the case for just over £20m. With this came the end of an informal government boycott. Was the company rehabilitated because it had cultivated an improper bond with the Labour Party? Between 1994 and 1997, Patricia Hewitt, the present trade and industry secretary, was head of research for Andersen Consulting, a sister firm later spun off from Arthur Andersen as Accenture. Andersen also gave the Labour opposition policy advice—for example, on how to levy the "windfall tax" it later slapped on privatised utilities. If personal ties to the firm really did persuade Labour to settle the British government's £200m case against Andersen for £20m, British taxpayers might justly feel that they had been robbed of £180m.

But did it happen? Mr Blair's spokesman insisted this week that even before Labour's victory in 1997, government lawyers had advised taking the Andersen case to an independent mediator, and that it was he who suggested settling for £20m, a figure deemed adequate by the same lawyers who had been advising the Conservatives before the change of government. In Parliament, Mr Blair also brushed off an allegation that Labour's cosy links with Andersen tainted the credibility of a much-cited report for the Treasury in which the firm heaped praise on the government's private-finance initiative, an initiative which happens to have blown much subsequent PFI business Andersen's own way. The PFI, retorted Mr Blair, was a splendid idea that had earned good reports from other accounting firms, such as

PricewaterhouseCoopers, and from the National Audit Office.

Sleazier than thou

Mr Blair cannot expect denials alone to silence his opponents. But nor will it be simple for the Tories to score a knockout through Enron. To settle the affair either way the government would have to publish the record of ministers' meetings with Enron and the advice it received from its lawyers about its own litigation against Andersen. The American Congress is laying siege to the vice-president, demanding transcripts of his contacts with Enron (see Lexington). But disclosure of this sort is virtually unheard of in Britain. And the Tories are also vulnerable. Lord Wakeham, a Conservative former energy minister, sat on Enron's audit committee. This week he had to step down temporarily as chairman of the Press Complaints Commission because there appeared to be a conflict of interest.

On points, however, Labour is likelier to come off worse in this boxing bout. Labour it was that raised a hue and cry about sleaze when it was in opposition, but which had to return a £1m donation from Bernie Ecclestone, a motor-racing tycoon who seemed by dint of it to have secured a policy U-turn on tobacco advertising. Whatever gloss remained after that affair will surely be scraped off now. Although Labour may have done nothing improper in relation to Enron, it was evidently happy to give its dupes the impression that they could gain access to ministers by sponsoring party events. Personal ties may have played no part at all in Labour's treatment of Andersen, but the party has evidently done too little to protect itself against this suspicion. Being intimate with businesses can sometimes do unfair or disproportionate damage to a party's good name. Too bad. While donations remain legal, fear of this reputational damage is one of the things that helps keep politicians honest.

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How about now?

Jan 31st 2002
From The Economist print edition

Information technology is increasingly taking the lags out of doing business, in effect creating a real-time economy, says Ludwig Siegele

YOU can't accuse Gary Reiner of being verbose and inefficient. Ask General Electric's chief information officer a question, and you get a three-sentence answer that is right to the point. He prefers show-and-tell to lengthy explanations and intellectual tangents. And he regularly checks whether his interlocutor is still following: “Are you getting what you need?”

Anything else would be a disappointment from someone in his position. After all, America's GE is known for its almost obsessive quest for perfection. And Mr Reiner heads the company's most important initiative: “digitising” as much of its business as possible. That not only means buying and selling most things online but, more importantly, setting up a digital nervous system that connects anything and everything involved in the company's business: IT systems, factories and employees, as well as suppliers, customers and products.

GE's aim is to monitor everything in real time, Mr Reiner explains, calling up a special web page on his PC: a “digital dashboard”. From a distance it looks like a Mondrian canvas in green, yellow and red. A closer look reveals that the colours signal the status of software applications critical to GE's business. If one of the programs stays red or even yellow for too long, Mr Reiner gets the system to e-mail the people in charge. He can also see when he had to intervene the last time, or how individual applications—such as programs to manage book-keeping or orders—have performed.

As chief information officer, Mr Reiner was the first in the firm to get a dashboard, in early 2001. Now most of GE's senior managers have such a constantly updated view of their enterprise. Their screens differ according to their particular business, but the principle is the same: the dashboard compares how certain measurements, such as response times or sales or margins, perform against goals, and alerts managers if the deviation becomes large enough for them to have to take action.

GE has a record of keeping ahead of the pack. In years to come, experts predict, many companies will use information technology to become a “real-time enterprise”—an organisation that is able to react instantaneously to changes in its business. And as firms wire themselves up and connect to their business partners, they make the entire economy more and more real-time, slowly but surely creating not so much a “new” but a “now” economy.

Companies will use information technology to react instantaneously to changes in their business

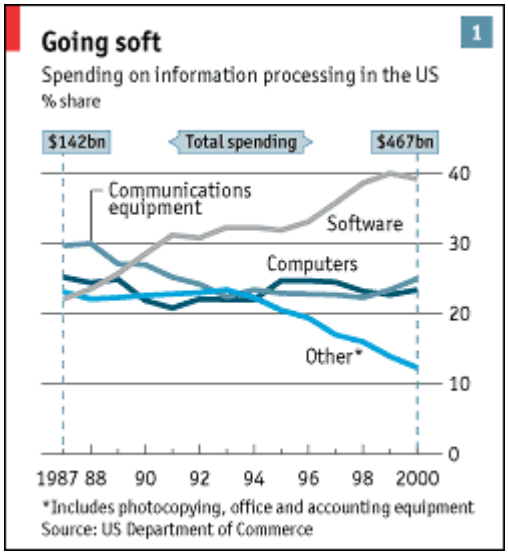
The next big thing

Small wonder that the Silicon Valley hype machine has already appropriated the concept of real time. Venture-capital firms, and above all the most prominent among them, Kleiner Perkins Caufield & Byers, are promoting it. Software and networking start-ups are peppering their marketing materials with the term. There is even a new newsletter called *Real-Time Report*.

Wonderful, one is tempted to say: another buzzword out of Silicon Valley—just what we need in these difficult times. But real time is more real than it appears. The start-ups in this field are leading the counter-revolution to the dotcom mania. They are not about all-too-clever business models and breathless "Internet time" (for which read going public as quickly as possible), but about highly complex enterprise software, often based on serious mathematics, that can yield real savings if deployed and used correctly.

That is why these firms might actually grow up to become successful companies. What is more, the current recession will probably speed up the adoption of new real-time products and services. Many of these do not require big investments. Instead, they make existing computer systems more effective, promising a quick return. GE estimates that its digitisation efforts saved it $1.6 billion last year. Firms that have spent billions on IT without any guarantee that their bottom line would benefit are desperate for such savings.

Most important, perhaps, the concept of real time is more useful than the somewhat artificial distinction between the "old" and the "new" economy. Real time describes the full potential of what information technologies could ultimately do, according to Andrew Odlyzko, director of the Digital Technology Centre at the University of Minnesota: drive the lags and latencies out of the economy and make it much more efficient. Real-time technology might even prove as important for speeding up the information flow in business as the telegraph, invented in 1837.



The economic effect of that technology was substantial. Before the telegraph, Australian companies had to carry large stocks because the only way to order from England was to send a letter by sea. But once the first telegraph connection between Australia and England opened, businesses such as Prince, Ogg and Co, a soft-goods firm in Sydney, were able to cut their stocks by more than half.

Yet "real time" is also something of a misnomer. It was originally a term of art in data processing, meaning that data are processed the moment they enter a computer, rather than in "batch mode", in which information is stored and worked on later. A classic example of batch mode is the early mainframe computer: data were first encoded on punch cards which were then fed through the machine.

In contrast, modern spreadsheet software is as real-time as it gets. To a layman these programs look like tables with many rows and columns of "cells". But their most important feature—how these cells are related to each other—is invisible. Often they are connected by simple operations such as addition or multiplication. Investment banks in particular, however, use more sophisticated spreadsheets in which the cells are linked by dozens of "macros", sometimes quite elaborate sub-programs. If a user changes the data in one cell, many others are automatically recalculated.

Instant gratification

To advocates of the concept, the real-time enterprise is a giant spreadsheet of sorts, in which new information, such as an order, is automatically processed and percolates through a firm's computer systems and those of its suppliers. Thus a simple inquiry such as, "When is my order being shipped?" can be answered immediately, and not six phone calls and three days later, explains Vinod Khosla, a partner with Kleiner Perkins Caufield & Byers and one of the most notable advocates of the real-time concept. Many consumers have already encountered real-time business without realising it, for instance when they order a Dell computer. The firm's website allows customers to check the status of their order at any time.

But the real-time enterprise is not simply about speeding up information flow. It

is also, as GE's example shows, about being able to monitor a business continuously and react when conditions change. Today, businesses “are mostly shooting in the dark”, says Michael Maoz, a research director at Gartner, an IT consultancy, and one of the pioneers of the concept. Real-time technology, he predicts, will give firms a window into their business they never had before.

Real-time enterprise is not simply about speeding up information flow

Mr Maoz also emphasizes the third main benefit of a real-time enterprise: using newly available information to offer new products and services. For instance, in 2000 GE's consumer-appliance business installed online kiosks in selected branches of Home Depot, a fast-growing American home-improvement chain. Customers can order an appliance, select a delivery date and time, and be told instantly whether their request can be met.

The following articles will describe in detail how the real-time economy works. First, there is the underlying technology. In the past, firms have faced a trade-off between being integrated and being flexible. New software technology promises to ease that trade-off, or even do away with it altogether.

At the same time, new hardware, such as wireless sensors, makes it possible to gather ever more information about the physical world and feed it into a company's computer systems. Turbines made by GE are equipped with sensors that allow the firm to tell its customers online how efficiently their machinery is operating. Similarly, companies can now collect more data about people, even tracking their location.

By themselves, these data would just contribute to the increasing information overload. But they present a new business opportunity: to develop software that analyses them and suggests ways of optimising the supply chain, or even automates the response to certain kinds of new information. This has already happened in the financial markets, where the availability of real-time data has produced a plethora of firms selling programs to automate trading and make it more efficient.

How will all this change the company and the economy as we know it? For reasons that will become clear later on in this survey, IT will probably not spell the death of big firms, as is often forecast. But real-time technology will have a huge impact on the inner workings of companies. It is also likely to make economies more fluid, and perhaps more volatile, as last year's abrupt American downturn suggests. The financial markets have already shown that putting even parts of the economy on autopilot can lead to accidents. A crash in 1987 was caused in large part by automated program trading. Perhaps, one day, the “now economy” will have to have circuit breakers installed.

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Timely technology

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From The Economist print edition

New kinds of software could make companies both more integrated and more flexible

SQUABBLING about who was the first to come up with “the next big thing” is a favourite game in Silicon Valley, and it is being played with gusto over the real-time enterprise. Vivek Ranadivé, the chief executive of Tibco, a Silicon Valley software firm, is miffed that Mr Khosla at Kleiner Perkins Caufield & Byers, the venture-capital firm, has appropriated his thoughts about the subject. He grumbles that the money man must have picked up the idea when Mr Khosla presented him with a leadership award a year ago.

In technology, especially, good ideas tend to pop up in several places when the time is right. But Mr Ranadivé was definitely one of the first to realise that there will be a growing need for integration: linking together disparate computer systems so information can flow more or less instantaneously. He also saw that this has to be done in a way that allows companies to change their business processes quickly.

To become real-time, companies must have an overarching “spreadsheet” that connects everything they do. But they also need good tools so they can easily change “macros”. And because users cannot keep track of all those rows and columns, they need an intuitive overview of the information they really care about.

Indian-born Mr Ranadivé was one of the first to think about this because he had seen the opposite in action—on a trading floor at Goldman Sachs, an investment bank, in the mid-1980s. The room looked like the warehouse of a disorganised computer store, Mr Ranadivé writes in his book “The Power of Now” (McGraw-Hill, 1999). In a business where every second counts, each desk was packed with as many as 18 separate monitors and several keyboards so that the trader could draw information from a range of 25 different, technologically incompatible news sources. He then had to aggregate all the information himself, often using nothing more high-tech than a pen and paper.

Let's take the bus

The obvious answer to this IT chaos—to build one huge, integrated system—was impracticable, because it would have been impossible to get all those involved to agree to a common set of standards. Building a system for each trader would have been too costly and complex. Mr Ranadivé's solution was what he calls “the information bus”—a way of reducing the data formats of the different news sources to a common denominator so that they could be displayed together.

This universal data conduit made it possible for traders to get exactly the information they wanted. The software does not send news items or stock quotes to individual traders, but “publishes” them to

electronic addresses representing a subject, for example news.microsoft.nasdaq or equities.ibm.nyse. Traders can subscribe to these feeds and be updated automatically.

This way of distributing information, called “publish and subscribe”, became the basis for many digital trading systems on Wall Street. Today, the trading floor at Goldman Sachs looks very different. Only two monitors sit on a trader's desk—one for the firm's internal and PC applications and one for MarketSheet, a service that brings together all the information a trader needs on one screen: stock quotes, news feeds, earnings information, graphs.

Mr Ranadivé's first start-up, Teknekron Software Systems, sold such messaging software to the financial-services sector. In 1997, he founded Tibco (The Information Bus Company), because he was sure that firms other than those on Wall Street would soon need similar technology. For one thing, capital markets, where most transactions are time-sensitive, have traditionally adopted new technology before the rest of the economy does. But the need to tie together disparate computer systems is even more noticeable outside the financial world. Companies have accumulated layers and layers of IT systems, many of which are unable to talk to each other.

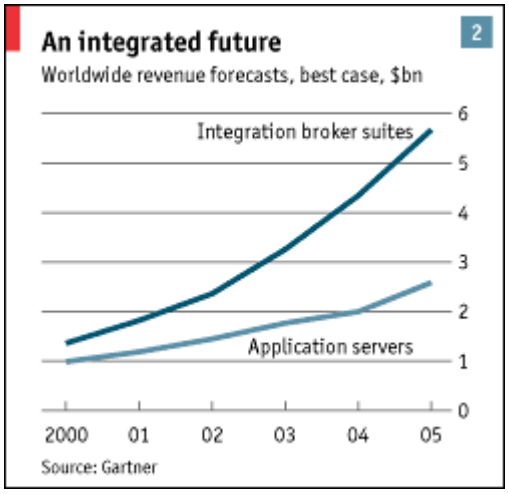
Companies have accumulated layers and layers of IT systems, many of which are unable to talk to each other

Take databases. It is not at all unusual, even in high-tech firms, for information about a single customer to be spread across a number of different and incompatible databases. Until recently, Oracle, a software giant that makes database programs, operated more than 100 different databases worldwide for its own customers and 70 for its human-resources department. If anyone wanted to find out the exact number of Oracle employees, it would take weeks of searching—and by the time the answer was found, it would already be out of date.

Customers of a mobile-phone company can easily discover how well-integrated the company is. All they have to do is telephone their mobile-phone operator and ask how much airtime they have used this month. The chances are that the people on the customer-service desk will be unable to tell them, because their computer is not linked to the firm's main database. When a customer has ordered a PC and it does not arrive within a week, as promised, the person on the other end of the line will probably be unaware that this is because the company is short of a single part, and that the caller could have his machine within days if he changed his order just slightly.

One explanation for this digital Tower of Babel is that information technology is a complex beast. Bridges between applications usually have to be hand-coded—a tedious and unpopular job—by in-house programmers or systems integrators. But it is not just technology that is to blame; political and economic reasons are at least as important, argues Ole Hanseth, a scientist at the University of Oslo who has studied the dynamics of IT infrastructure in global organisations. Departments have built their own systems and are wary of integrating them with others because they fear they will lose some of their autonomy and thus their power.

Financial incentives play a big role too, according to Gartner's Michael Maoz. They can turn integration into a common good that nobody wants to provide. American consumers often wonder why, if they ring their telephone company and are handed from one call centre to another, they always have to repeat their contact information and describe the problem all over again. This happens mainly for accounting reasons: if the first call centre were to hand over all the information to the second one, it would bear the main cost of the call and make the second look more efficient.



These sorts of organisational problems also help to explain why the first serious effort to merge “data silos” was often painful. The effort in question was to implement enterprise resource planning (ERP) systems—complex software suites of interlinked applications that were pioneered by SAP, a German software giant. The idea was to use a unified database to make sure that different programs, say for financial planning or human resources, worked with the same information. In fact, as Peter Zencke, an SAP board member, points out, the “R” in R/3, the name of his company's ERP system, stands for “real-time”.

Yet ERP systems cleaned up only part of the IT mess, and created new problems of their own, mainly

because they are inherently inflexible. They have their own way of managing the information in databases which cannot be easily changed or shared with other applications. In effect, explains John Hagel, a noted American e-commerce expert, ERP systems have replaced “fragmented unit silos with more integrated, but nonetheless restrictive enterprise silos”. Many companies therefore get the worst of both worlds.

Meanwhile, ever-increasing competition and the recession have been pushing firms to become both more integrated and more flexible. If they want a global organisation to act as one, or to show a single face to their customers, they have to streamline their information flow. And given rapidly changing markets and the endless succession of acquisitions, divestitures and new strategic partnerships, they need to be able to change their business processes swiftly.

The technology provided by Tibco and similar enterprise application integration (EAI) companies such as CrossWorlds (recently bought by IBM), SeeBeyond and Vitria goes a long way towards resolving the tension between integration and flexibility. Conceptually, their products are all similar to Mr Ranadivé's “information bus”, except that they do not connect news sources with traders but machines with other machines.

But the programs are not just dumb conduits. They let firms embed business processes into the information flow; for example, how an order is processed or when a supplier is paid. And this integration software now comes with graphical tools, so users do not need to be seasoned hackers to program and change business processes, as they had to be with ERP systems.

Web services to the fore

Yet EAI and related software, too, has its drawbacks. It is expensive, and so far it connects only a limited set of applications. But its biggest disadvantage, according to Don Ferguson, an IBM research fellow, is that it does not provide the flexibility of changing business processes in real time. This is where web services come in. This technology, a set of standards based on XML (Extensible Markup Language, used for web pages), allows firms to integrate their systems even if they do not have their own networks and lack the money to buy expensive EAI software. Web services try to standardise integration by turning the Internet into a universal data bus. Programs publish their data feeds following a set of Internet standards so that other programs can easily subscribe to them.

The central piece of code in the real-time enterprise is likely to be a program called an application server—an operating system of sorts for web services, just as Windows is the operating system for PC applications. Unsurprisingly, IBM offers such a product, called WebSphere, of which Mr Ferguson is the architect. But there are other vendors, such as BEA, iPlanet and Oracle. Even Microsoft's .NET framework belongs in this category, although it is based on a different programming language.

The big hope of web services is that they will make the integration of computer systems across firms much easier, says Charles Fitzgerald, a leading software strategist at Microsoft. A favourite example is that it took Southwest Airlines and Dollar Rent A Car only a month to hook up their systems so that visitors to Southwest's website could easily reserve a rented car after they had bought a plane ticket. With traditional EAI technology, the same feat would have taken months and cost millions of dollars.

IBM's Mr Ferguson goes even further. Before too long, he says, web services will be able to team up as required with the help of software agents to solve a one-off problem such as making the necessary arrangements if a flight gets cancelled. A collection of web services would take the place of a travel agent using the phone or the fax: try to get another flight, book new ground transport, perhaps reserve a hotel room.

Yet some software firms doubt that this hyper-flexible world of web services will come to pass any time soon. In fact, they are convinced that companies will always need a helping hand to make their disparate systems work together. To avoid complications, buy everything—or at least the core applications—from us, says Oracle. More interestingly, Asera has positioned itself as a kind of super-integrator. Firms can install its “eBusiness Operating System”, a collection of the available integration technologies, and hire its consultants to speed up their transformation into a real-time enterprise.

Some software firms doubt that this hyper-flexible world of web services will come to pass any time soon

There are also lots of start-ups with their own angle on real-time computing. KnowNow software allows

users to build publish-and-subscribe services delivered over the Internet. Bang Networks has developed technology to update information on web pages continuously. Kenamea's products, among other things, speed up web-based applications.

Horses for courses

But how will people work with all these integrated systems? The “user interface” of the real-time enterprise will come in different shapes and sizes, depending on the role of the employee and the device concerned. For service technicians it might be nothing more than a display on a pager that tells them where to drive next. For office workers it will probably be an “enterprise portal”, giving personalised access to corporate information and applications. And senior managers will have their “digital dashboards”, showing them in real time how their business is doing.

Software experts are already speculating about the way corporate IT systems will look in 20 years' time, when the “legacy” systems (the term used for old applications) will, with luck, have disappeared and EAI vendors will be history. In all probability, corporate IT will by then have become amazingly lightweight. Companies won't need much more than a “real-time manager”, to use a term coined by Thomas Berquist, an analyst with Goldman Sachs. Everything else could be outsourced via web services, except perhaps a few core applications. And firms will be able to tap into many more data sources in future, as this article will explain.

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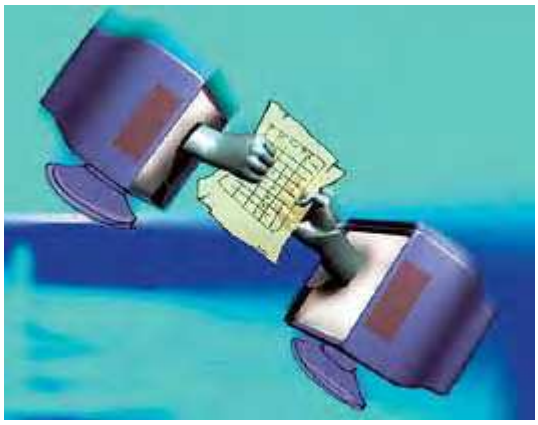
Stretching spreadsheets

Jan 31st 2002
From The Economist print edition

Collaborating virtually is becoming easier



A SPREADSHEET program is a good metaphor for describing the IT architecture of a real-time enterprise. But such programs also show up the extent to which companies and their employees are often still stuck in batch mode. The data they use in spreadsheets are often out of date and must be put in by hand. And anyone who uses them to organise a project has to keep sending updated files to every colleague involved. No wonder many start-ups are trying to improve on the spreadsheet.

Juice Software, based in New York, has developed a set of programs that allow users to turn their spreadsheet into living documents. With a few mouseclicks they can link a spreadsheet cell to a data source, for instance a corporate database. Smart software on a server in the network ensures that this cell is automatically updated whenever the information changes. Users can also connect their spreadsheets among themselves, so if one member of a project team changes a cell, the changes automatically appear in all the team members' files.

OurProject.com in San Francisco goes a step further, offering an alternative to the spreadsheet. The web-based service integrates all the tools needed to manage a project, such as a marketing campaign or the design for a new product. Project leaders can easily assign tasks, keep track of the budget or view detailed timesheets. A sophisticated graphical reporting interface helps keep a project on time and within budget.

Silicon Valley-based Zaplet, for its part, offers an interactive e-mail of sorts to help streamline collaborative decisions online. To approve a sales contract, for example, one user sends around a Zaplet, which can be quickly created by snapping together software building blocks for polling and online discussion. If one of the recipients votes or posts a comment, the other team members' Zaplets are automatically updated.

QuickBase, a service operated by Intuit, a Silicon Valley software firm best known for its personal-finance program Quicken, offers something rather different: it allows users rapidly to build online databases that can be shared with others.They may be something as simple as an address book, a collective to-do list or information about job applicants. This service could ultimately replace many spreadsheet files which currently clog up corporate networks.

Yet it is always dangerous for start-ups to venture on to Microsoft's turf. The latest version of the software giant's Excel spreadsheet program also lets users link cells to data feeds and allows them to put files online so they can be worked on collectively. What is more, the company recently released a new version of Microsoft Project which can run on servers in a corporate network. All these start-ups will have to be nimble indeed if they want to keep ahead of Microsoft.

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Desirable dust

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How smart sensors can monitor the real world

WHEN peripatetic futurologists such as John Gage of Sun Microsystems really want to impress their audience, they talk about “smart dust”. The concept is indeed intriguing. The dust in question is made up of tiny, wireless sensors that could be dispersed anywhere—say, over a battlefield to find out where enemy troops are, or whether chemical or biological weapons have been used.

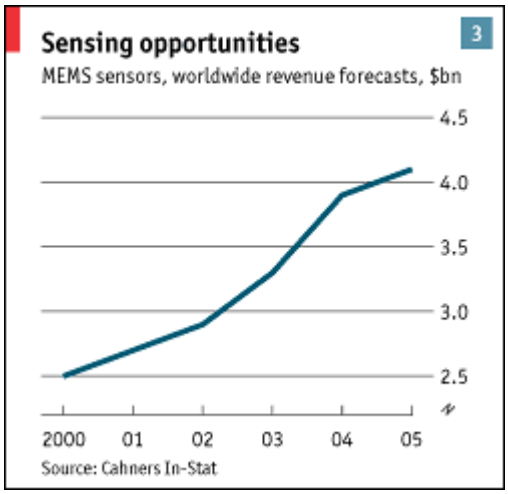
This is not science fiction. Researchers at the University of California at Berkeley led by Kris Pister, a professor of electrical engineering, are already working on a smart-dust prototype the size of a small nailhead. A klunkier version can already be bought from a Silicon Valley start-up, Crossbow Technology.

It may be decades before smart dust is dispersed over real battlefields, but the tiny devices are at the forefront of an important technological trend that is often underestimated: the spread of sensors and tags. New manufacturing processes, wireless technology and intelligent software are making them ever smaller, smarter and, most important, cheaper. As with microprocessors and lasers in earlier decades, the novelty is not that these sensors exist at all, but that they have suddenly become cheap enough to be used in ordinary everyday products, says Paul Saffo, director of the Institute for the Future, a Silicon Valley think-tank.

Electronic nose, anyone?

Perhaps to an even greater extent than better software, wireless sensors and tags play a big part in making the real-time economy happen. Whether they are tiny thermometers, miniature microphones, electronic noses, location detectors or motion sensors, all of them provide ever more information about the physical world, meaning that firms can add ever more cells to their corporate spreadsheets. Small wonder that forecasters expect the technology to become a huge business. The global market for sensors alone will reach more than $50 billion in 2008, according to Intechno Consulting, a consultancy in Basle, Switzerland.

Sensors are nothing new in expensive machinery, where an unexpected breakdown can be costly. What makes them so much more useful is that they are increasingly connected. General Electric has long been equipping some of its aircraft engines, turbines and locomotives with all kinds of sensors, but until recently the data were not available in real time. Now all the information is regularly transmitted via satellite to a GE remote-monitoring centre. If there is something wrong with a jet engine, for instance, the facility identifies the likely cause and tells the airline about it.



Remote monitoring also allows classic old-economy companies to deliver high-tech services. For example, SKF, a Swedish bearing manufacturer, uses sensors to measure the vibrations of machinery at strategic positions and feed the data into analysis software that can determine when a bearing is about to fail. Users can then arrange for its replacement. This is particularly useful in manufacturing processes where downtime is expensive, such as in car factories or paper mills.

Monitoring systems are also appearing in more everyday settings, for example in ice-dispensing machines in supermarkets. Sensors in “Ice Factories”, operated by Dallas-based Packaged Ice, are able to obtain real-time data on dozens of conditions. Is the ice at the right temperature? Are the bags sealed

correctly? Has a light bulb burned out? If something has gone wrong, the machines automatically alert the company so it can send someone round to solve the problem.

Similar systems are set to become ordinary parts of cars, air conditioners and household appliances. One firm that is working on this is graviton, a start-up backed by a group of investors including the CIA's venture-capital fund, In-Q-Tel, and Siemens, a German electronics giant. To build ever cheaper sensors, graviton uses technology known as MEMS (short for microelectromechanical systems), devices built with techniques developed in semiconductor manufacturing.

The tiny sensors are, in essence, microchips that convert analogue data about anything physical—pressure, light, gas, genes—into bits and bytes which they communicate wirelessly to a network. Graviton has yet to prove that its technology can live up to its promises, but if it does, some of its investors will certainly become customers. Royal Dutch/Shell is reportedly studying how to use graviton's sensors to monitor its oil refineries and pipelines.

We know where you are

Tagging technology is getting cheaper as well. Today it is mostly used in logistics and manufacturing. WhereNet has developed a system of matchbox-sized wireless tags and readers that allow objects to be located within about 3m (ten feet), making it much easier to keep track of them. American Airlines has recently installed the system in its huge cargo facility at Dallas-Fort Worth airport. Ford has been using it for some time so workers on assembly lines can call for more parts and to track new cars in its yards.

Consumers will also get the benefit of using wireless tags, albeit for the moment only the cheaper “passive” ones, which must be activated by a magnetic field generated by a reader. In a few years, smart labels called radio frequency identification tags are likely to replace today's ubiquitous bar codes so that groceries, for instance, will no longer have to be scanned in individually. Shoppers will just push their carts through a reading station. Likewise, the refrigerator could one day know when the beer supply is running low and re-order automatically.

However, all these fancy sensors and tags need software to make sense of the data they deliver. Just knowing that a piece of machinery is running hot does not help much. GE uses sophisticated statistical methods and historical data to decide whether it is a clogged fuel filter or just bad weather that has reduced a locomotive's horsepower. Similar tools tell a railway company how many of its locomotives need servicing at any one time so that it can schedule the work at its maintenance centres.

All these sensors will generate a phenomenal quantity of data, raising the spectre of a huge information overload. One solution is to make the sensors smart enough to communicate with each other and process much of the information automatically. Mr Pister and his Berkeley colleagues have developed an operating system for their smart-dust motes that lets them form wireless networks without human intervention.

Such self-organising technology might one day make another futurologists' dream come true. Sensors will combine their skills with effectors, tiny devices that can manipulate matter, making it possible to create “smartifacts”—smart materials and intelligent artifacts. One example often mentioned is turbulence-reducing aeroplane wings covered in billions of silicon microflaps and tiny wind sensors. Another is bridges made earthquake-safe using arrays of effectors and sensors. These sound highly desirable, but other potential uses of sensors are less benign.

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Always-on people

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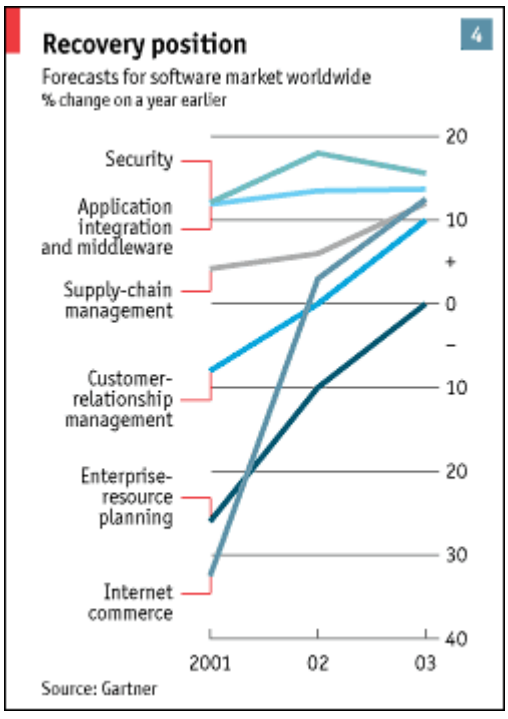
A big part of running a real-time enterprise will be managing relationships

MANY pets already wear implantable biochips so they can be tracked. Will people be next? A search on the Internet yields a worrying several hundred finds, but a closer look reveals that most of these are websites maintained by overly sensitive souls who are bothered that the biblical "mark of the beast" might soon become reality. Others fret that a national ID card in America might one day be replaced by implanted ID chips.

It is unlikely that these kinds of tracking devices will soon become part of the real-time economy. But this does not mean that information about people will not play an important role. On the contrary: such data will be central to improving business relationships, be they with customers, partners or employees. In fact, "relationship management" software, in particular for customers (CRM for short), is among the few segments of the software industry that are still growing strongly (see chart 4). Siebel Systems, the market leader in this field, is weathering the economic storm better than most IT firms.

Relationship management is something of a fad, just as enterprise resource planning (ERP) was in the 1990s. Yet there is a real need as well. It is not much use speeding up your information flow if your customers defect to the competition, which they appear increasingly ready to do. And now that the supply chain is becoming more and more standardised and optimised (see article), finding and keeping the most profitable customers and perhaps even dropping some of the loss-makers looks like the best way to improve margins.



The idea of relationship management is in some ways a throwback to a time when the world was still easily encompassed. A small-town shopkeeper, for example, knew that a certain customer always bought a bottle of beer on the way home from work, and could be talked into buying three on a Friday. He knew which farmer delivered consistently good-quality vegetables. And he knew which of his employees was good at dealing with which customers.

An intimate relationship

To recreate this intimacy, relationship-management software pulls together information from different departments of a firm. CRM systems collect data from any point where a customer “touches” a company (such as a store, a call centre or a website), and combines them with information from other sources (such as credit ratings or driving records). These data can then be used to improve a firm's service, for example by relieving people of the tedious business of having to fill in a home-loan application. More complex uses include giving customers different levels of service, depending on how rich they are: if they have only $100 in their account, they might end up being told a dozen times that “your call is important to us”; if they are millionaires, a real person will probably pick up the phone right away. The highest art of CRM is to come up with a personalised offer, say a combination of a home loan and a college savings plan, that a customer is likely to accept.

As the examples suggest, banks and other financial firms have again been the early adopters. But other industries are catching up fast, including some that may not look like obvious candidates, such as casinos. In fact, Harrah's Entertainment, the world's second-largest gambling company, was a CRM pioneer. As early as 1997, it started capturing data about members of its Harrah's Total Gold programme, including their gambling behaviour.

This huge amount of information now allows Harrah's Entertainment to predict how profitable a customer might be, even after only a few casino visits. The data are also an excellent basis for launching fine-grained marketing campaigns. For example, to counter the sharp drop in occupancy rates at its main Las Vegas hotel after the terrorist attacks on September 11th, the company sent out thousands of finely targeted e-mails to potential customers. As a result, its rooms quickly filled up again.

CRM systems also proved their worth to other firms in the wake of September 11th. They allowed Hewlett-Packard, a computer maker, quickly to compile a list of all its customers in the World Trade Centre, complete with the PCs, servers and printers they had bought, and match this information to the closest HP supplier with the equipment in stock. This gave HP a head start once Wall Street firms started ordering replacements.

Harrah's, HP and others rely mainly on a technique called data mining—trying to find patterns in consumer behaviour by using clever software to sift through huge piles of historical data. But some CRM firms such as E.piphany now offer tools that analyse the data in real time. Customer-service representatives at Bell Mobility, the wireless unit of Bell Canada, can make instant offers based on a customer's calling patterns, his age and the way similar customers have reacted to such offers.

On the minus side, CRM can cost a firm millions of dollars, and it is no panacea. Indeed, it is going through the same cycle of hype and anti-hype as ERP has done, only much faster. Only last year the trade press and market-research firms were celebrating this class of software as a godsend. Now the general mood is much more sceptical. One sobering study recently published by Gartner suggested that customers considered more than half of all CRM implementations a failure.

Such gloom may well be as overblown as the promises made by many vendors. But it is clear that CRM is at least as difficult to implement as ERP. And as with ERP, the biggest challenges are not technical, but organisational and political. Senior managers buy these expensive software packages without consulting their troops, who then refuse to use the system. And the marketing, sales and customer-support departments, which usually see themselves as enemies, often fight over the integration of their respective IT systems.

What is more, CRM is a process as well as a product. Firms must learn how to use the complex software. One clear danger is that they may alienate customers, who will welcome better service but may be more doubtful about uses of the technology such as finely segmenting the market or targeting customers individually. Amazon, a leading online retailer, has a cautionary tale to tell: in September 2000, after angry protests, it pulled a test in which it had charged different customers different prices for the same DVDs.

Whatever next?

The software industry is not leaving companies much time to digest CRM before coming up with the next thing. One is partner relationship management, or PRM, which in essence is CRM for dealers or distributors. More interesting is employee relationship management, or ERM, pioneered by Extensity. The

basic idea is to digitise and streamline the “life cycle” of employees—how they are hired, trained, managed and retained.

Because it does away with tedious tasks, this kind of software has so far proved quite popular with employees. It allows them, for instance, to file their expense reports online and be reimbursed within days. But they are unlikely to be enthusiastic about the latest feature, which involves posting and tracking personal objectives. Siebel now offers this as part of its ERM suite and is using it itself. On the first day of every quarter Tom Siebel, the firm's founder and chief executive, posts all his objectives for the next three months, for all to see. The following week all the senior managers do the same. Within two weeks all employees follow suit.

Some trade-union representatives wonder when firms will start implanting chips in their employees to track their every step. It seems only a matter of time until the technology will be available. WhereNet already offers a personal tracking device the size of a wristwatch. And several start-ups have said they are working on a prototype of an implantable chip that contains a miniature global-positioning-system (GPS) receiver and can broadcast its position.

Other than people in danger of being kidnapped, such devices seem unlikely to find many takers. And there may be no need anyway. Even without them, people are becoming more and more trackable already. For example, they use online offerings that indicate their whereabouts, such as instant messaging. Several firms now offer services that can identify a web surfer's location. And wireless devices are getting smart enough to know where they are. Microsoft even wants to launch a web service called myLocation, which will provide information on where people are.

Tracking people may interfere with their privacy, but it has economic attractions. For instance, it could allow much better use to be made of service technicians, by combining information on where they are with other data, such as their skills and the spare parts in their truck, to decide where to send them next. Software doing just that, developed by researchers at IBM's Watson Research Centre, can reduce the time the firm's technicians spend to repair a broken computer by a factor of five.

Nor will it be only technicians who will have their next service call and even their lunch break scheduled by an optimisation algorithm. Now that we have real-time information from a lot of sources, we can use it continuously to improve all kinds of economic activity, explains Baruch Schieber, senior manager of IBM's new “Optimisation Centre”. To him, a prime candidate is the service industry, where productivity has always lagged behind that of other sectors. But first the algorithms that he and others are developing are being put to use somewhere else: in supply-chain management.

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Chain reaction

Jan 31st 2002
From The Economist print edition

Managing a supply chain is becoming a bit like rocket science

IF YOU think supply-chain management is a boring topic, listen to one of Hau Lee's talks. Within minutes, the professor of engineering and management science at Silicon Valley's Stanford University has the audience roaring with laughter. When it comes to anecdotes illustrating the pitfalls of today's supply chains, he has the delivery of a stand-up comedian.

One story he tells is about Volvo. In the mid-1990s, the Swedish car manufacturer found itself with excessive stocks of green cars. To move them along, the sales and marketing departments began offering attractive special deals, so green cars started to sell. But nobody had told the manufacturing department about the promotions. It noted the increase in sales, read it as a sign that consumers had started to like green, and ramped up production.

Another classic in Mr Lee's repertoire is the “bullwhip effect”, named after the way the amplitude of a whip increases down its length—just as variations in orders tend to get amplified along the supply chain. Why is it, for instance, that Procter & Gamble has to deal with widely fluctuating orders for its nappies, when babies' consumption is generally quite steady? The reason is that each retailer bases his orders on his own, slightly exaggerated, forecast, thus increasingly distorting the information about real consumer demand. This is one of the most important causes of inefficiency in a supply chain.

Yet Mr Lee is not just some academic out to poke fun at clumsy companies and economic peculiarities. He and his colleagues at the Stanford Global Supply Chain Management Forum are in business to help firms run their supply chains more efficiently and effectively. This is becoming increasingly difficult. Customers are getting more and more demanding, looking for a customised solution delivered within days, and no longer willing to accept a commodity product in weeks. At the same time, most firms' manufacturing processes are becoming increasingly dispersed and global.

Few of them have even begun implementing the technology necessary to reduce the “bullwhip effect”, such as software to speed up the information exchange with their partners and collaborate on planning. But Mr Lee and his colleagues are already concentrating on the ultimate prize of supply-chain integration: ways of constantly monitoring and improving the whole system by using all the available data.

The start-ups spawned by this kind of research are anything but typical dotcoms, says Bruce Richardson, an analyst with AMR Research, an IT consultancy. By supplying algorithms to balance all the variables of a supply chain, such as product prices, stock levels and customer demand, they are following in the footsteps of i2, the market leader in supply-chain management. Other models include firms that developed automated trading programs once real-time data became available on Wall Street.

Rapt, another start-up, is perhaps the best example to show that optimising a supply chain can be as challenging as managing a financial portfolio. The firm has 20 PhDs on its staff and boasts a long list of patented algorithms. It needed every one of them to build its hugely complex software. Based on, among other things, historical data and forecasts, it answers pressing questions for many manufacturers. What

is the most appropriate stock level for each component of a product? And would it be better to buy a part on the spot market or get a supplier to guarantee a certain quantity?

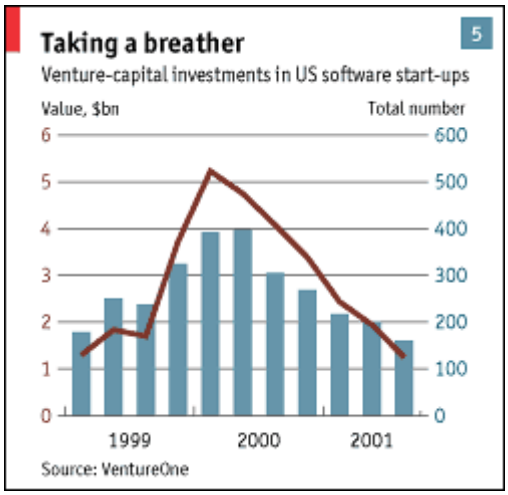
Why algorithms are good for you

For firms in volatile high-tech markets in particular, the answers to such questions are well worth paying for. For example, Sun Microsystems, a computer maker, used to get its demand forecasts wrong by 40-60%. The lead time for some components can be 16 weeks, but customers want delivery within four weeks. Product shortages are very costly, but unsold products lose value quickly. Using Rapt's software for some of its products, Sun says, it saved $15m and increased revenue by $30m in the first quarter of last year.

SeeCommerce goes for a different market: monitoring an existing supply chain and finding weak links. By gleaning data from all parties involved and making them accessible online, the start-up's software lets firms check continuously how well their supply chain is performing—a task that most manufacturing managers still carry out manually, based on printed reports. The program also allows managers to work together to solve, say, a chronic problem of getting replacement parts for cars into the hands of mechanics.

This was exactly DaimlerChrysler's problem. Its warehouses could not fulfil all of the 220,000 orders that come in every day, which meant that customers had to wait to get their cars repaired—or go elsewhere. To improve the balance of supply and demand, SeeCommerce linked DaimlerChrysler's Mopar parts division with many of its suppliers and logistics providers, which allowed Mopar's purchasing and inventory managers to see what was wrong and speed up the flow of parts. In the year 2000, the car maker says, the system saved it $7.2m in reduced stock and $10m through improved order fulfilment.

Another firm, Vigilance, concentrates more on real-time alerts. The firm wants managers to be able to respond immediately if there is a rush order from an important customer, or if a critical machine fails, and to use the information to improve the business process. Over time, the firm hopes it can help its customers automate their reaction to many of these “events” so that humans have to get involved only in truly exceptional circumstances.



PowerMarket is also in the business of what insiders call “supply-chain event management”. But its strength is in helping electronics firms to respond—again something that most firms still do manually, even if they spend billions on components. If, for instance, a computer maker receives an unexpected order, PowerMarket's “business process module” lets the managers in charge find the best source for the parts and the easiest way to reschedule production.

As yet, these firms have a handful of customers at best, but Mr Lee has already set the next goal: demand-based management. Traditionally, supply-chain management has assumed that demand is fixed. This is a foolish premise, because firms can influence demand with instruments such as pricing, promotions or lead times. What is needed, argues Mr Lee, are programs to steer demand that are linked to supply-chain systems—not only to avoid mishaps such as Volvo's green cars, but also to maximise a company's overall profit.

Stanford engineering professors make a habit of backing their hunches by founding start-ups, and Mr Lee is no exception. One of the companies he co-founded is Nonstop Solutions, whose goal is to speed up inventory flows. Another is DemandTec, which is working on optimising all the prices in a retail store, which can number in the thousands. The firm feeds its software with hundreds of variables—scanner data, pay rates, storage costs, seasonal ups and downs—to tell the manager of a grocery store exactly what he should charge for a bottle of lemonade in order to maximise profit or revenue.

The best of both worlds

But products to optimise both supply and demand are only now being developed. Rapt recently

introduced a sell-side version of its software. PowerMarket's platform can be extended to include this aspect. Manugistics, a leader in traditional supply-chain management, in December 2000 acquired Talus Solutions, a software firm specialising in yield management (ie, charging more where the market will bear it and less if demand is low) for hotels and airlines. Demand for such products will surge, predicts Mr Lee: demand-based management will be “the next battleground for competitiveness”.

As a true supply-chain evangelist, he can already point to a number of success stories. Seven-Eleven Japan, a chain of convenience stores, instructs its cashiers to record the sex and estimated age of each customer so it can set out its shelves in the most convenient way, he says. That is why beer can now be found right next to ladies' stockings: the data showed that those stockings are bought mostly by men on their way home from work. Similarly, Zara, a Spanish clothing giant, uses sales data to introduce new products all the time, about 12,000 each year. Its supply chain is so flexible that the lead time from designing a new piece of clothing to selling it in the shops is only two or three weeks.

Both examples, however, are special cases. Seven-Eleven Japan does much of its data mining manually. Zara runs its own manufacturing facilities, which gives it more control over its supply chain. All this goes to show that solving the increasingly complex supply-chain equation is not just a question of good technology, but also of the right corporate culture.

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Planning with a view

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Financial software can work magic, but only with the right data

REAL-TIME technology will not only take much of the slack out of supply chains, it is also bound to improve firms' ability to plan their financial affairs. That is what Closedloop Solutions, a three-year-old Silicon Valley start-up, is betting on. Its founder and chief executive, Chandran Sankaran, noted the growing discrepancy between traditional methods of financial planning and the realities of today's business, and saw an opportunity.

Many firms revise their forecasts and budgets only once a quarter, often on the basis of old data. New information, such a sudden drop in demand for a particular product, may be known to the salespeople, but not to the chief financial officer. At the same time, business is getting faster and geographically more spread out, and not just in high-tech industries. Both trends make it much harder for managers to steer their firms in the right direction.

The firm's software, which is web-based, aims to give companies a clearer and more up-to-date view of the future so they have more time to react to changes. At its most basic, the program is a big online spreadsheet representing a detailed financial plan which can be updated whenever important new information arrives. However, managers cannot change data as they please. They have access only to certain cells, depending on their position in the firm. And there are lots of macros to analyse data, alerting the right people to new information and allowing them to respond, for example by adjusting spending caps.

Suppose the chief financial officer of a computer maker has just increased such a cap on quality-control spending because of better-than-predicted sales. The system will alert the manager in charge of quality control who can then decide how to spend the extra money, perhaps by hiring another engineer and adding a trip to a technology conference. If he exceeds his spending cap, he will need to make cuts elsewhere or ask for an increase.

This way financial planning becomes a continuous collaborative process, rather than the periodic and mostly top-down exercise that it is today. Moreover, it will not only give chief financial officers a better view of the road ahead, but also allow them to play with scenarios based on current information and make more confident earnings estimates, says Katherine Jones, an analyst with Aberdeen Group, an IT consultancy. But she also issues a warning: Closedloop's software is only as good as the data that are fed into it. The wrong view of the future might be worse than no view at all.

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Re-engineering in real time

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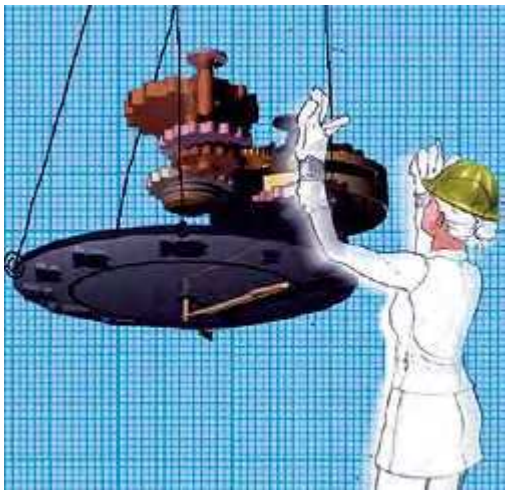
Information technology will transform the company as we know it



IT WAS only early last year that General Electric started to talk about its plan to digitise its entire business, but arguably the whole thing started much earlier, in the mid-1990s. That was when GE launched its “Six Sigma” initiative, the management method on which its redoubtable quest for perfection is based. It is no accident that this effort was first led by Gary Reiner, the company's chief information officer.

Six Sigma, in essence, is a way of creating a closed-loop system to make continuous improvements in business processes. First, you pick a goal, often customer-related, for instance the time you take to deliver a product, and measure how well you are doing against that goal—not on average, but in terms of variation. Then you try to change the business process in order to reduce that variation as much as possible. If you hit your goal 99.9997% of the time, you have achieved “six sigma”, a statistical term describing the degree of variation. In Six-Sigma parlance, it means your “defects per million opportunities” are down to 3.4.

GE has trained tens of thousands of its managers in Six Sigma techniques, which now makes it much easier for the company to introduce real-time technology. It allows results to be measured easily, and business processes to be adjusted quickly to improve these results. In fact, most of the start-ups mentioned in this survey say that their products are designed for exactly this kind of closed-loop decision-making.

Not many firms will be as prepared as GE to go real-time. Many will have to adapt their culture and the way they do business. And, for better or worse, things are likely to get more quantitative, centralised and ever-changing. Until recently, the corporate spreadsheet—the IT guts of a firm—was shaped mostly by the organisation for which it was designed. Now it is the spreadsheet which in many ways will shape the organisation.

Once again, with more feeling

Not that re-engineering combined with IT is a new concept. In the 1990s, many firms went through a wrenching re-engineering experience, often in parallel with the equally difficult introduction of an enterprise resource planning (ERP) system. But these were one-off efforts usually limited to one company. Real-time technology should make it possible to re-engineer business processes on a continuous basis, and across the boundaries of many firms.

Both authors of the infamous 1993 bestseller “Re-engineering the Corporation”, Michael Hammer and James Champy, have recently written new books. In “The Agenda” (Crown Business, 2001), Mr Hammer emphasises the need to “institutionalise a capacity for change”. Mr Champy, now chairman of consulting at Perot Systems, in “X-Engineering the Corporation” (Warner Books, forthcoming) invokes the increasingly pressing need for “cross-organisational process change”.

At this point, it is anybody's guess what a typical real-time enterprise will look like. Ray Lane, a partner with Kleiner Perkins Caufield & Byers, predicts that in the long run real-time technology will do away with all the features of a firm that were needed to assure information flow in an offline world: hierarchies, departmental boundaries, paper-shuffling employees. To the former number two at Oracle, this is a tempting prospect because it would empower top executives: they would no longer be isolated from their

business by layers of bureaucracy.

Tibco's Vivek Ranadivé, for his part, already has a rather precise vision of what he calls the "event-driven" firm (see table 6). If he is right, running a company will be rather like managing an IT system today: machines monitor the business, solve problems by themselves as far as possible and alert managers when something is amiss. Mr Ranadivé calls this "management by exception", and to some extent already practises it at Tibco: most of the firm's employees are equipped with a BlackBerry, a wireless device that can receive and send e-mail, so that they can be given warning of an "event" such as an unhappy customer.

The shape of things to come? 6

How real-time technology may change the nature of the company

Characteristic or practice	Contemporary company	Event-driven company
Business strategy	Long-term strategic plan guides actions	Medium- to long-term intent, but short-term planning horizon
Competitive posture	Study and understand your competition	Study and understand your customer
Management style	Consensus-oriented management	Entrepreneurial leadership, star system
Operational focus	Continuous monitoring to achieve quality	Quality is assumed, focus is on exceptional trends and events
Corporate culture	Egalitarian	Meritocratic
Recruiting	Hire team players	Team players are good, but prima donnas bring the greatest value
Implicit company/ employee contact	Promise of lifetime employment	Opportunity for lifetime employability
Employee career management	Company manages your career	Employee manages own career
Information technology	Database-centric, passive, demand-driven	Information-centric, active, event-driven
Partnership model	Formal or informal *keiretsu*	Shifting alliances and "co-op-etition"
Corporate anthem	Souza march	Jazz improvisation

Source: "The Power of Now", by Vivek Ranadivé

Yet firms are not just paper- and people-based information systems, easily replaced by more efficient digital ones. Some aspects of non-computerised information systems that have developed over hundreds of years will be hard to digitise, not least because they are not always consciously understood, argues Ole Hanseth, the researcher at Oslo University, who is currently studying the way information about x-ray examinations is handled in a hospital. One example of such "hidden" data is the precise way a patient's chart is placed on a desk, which can indicate that the examination is over.

Will information technology slowly but surely deconstruct the company as we know it?

There are similar problems with another theory about the future of the firm: that information technology will slowly but surely deconstruct the company as we know it. According to this view, the fundamental building blocks of the economy will one day be "virtual firms", ever-changing networks of subcontractors and freelancers, managed by a core of people with a good idea. Eric Raymond, one of the intellectual leaders of the open-source software movement, even thinks that the future belongs to the "ex-corporation"—groups of people held together mainly by idealism or desire for self-expression and led by benevolent dictators, similar to today's open-source projects such as Linux.

Such predictions are often based on a one-sided interpretation of the ideas of Ronald Coase, a Nobel-prize-winning economist, says Phil Agre, a professor of information studies at the University of California at Los Angeles. True, he explains, technologies that speed up the flow of information bring down transaction costs, which should induce companies to do less themselves and outsource more. But Mr Coase also argued that the size of a firm is determined by organising costs, which technology tends to lower as well, so the real-time enterprise might end up being larger than its less nimble predecessors. And there are other forces that keep a firm together. Even the best information flow cannot replace old-fashioned trust and social bonds. Besides, a company might want to keep control of its supply chain to protect its brand and knowledge.

Yet better IT will certainly allow the economy to be reorganised in more efficient ways, giving rise to ever more specialised firms. For instance, if the underwriting department of an insurance company is delivered internally as a web service, it could easily be outsourced or, more likely, offered as a service to others. The electronics industry is at the forefront of this trend. Most big computer makers no longer build what they sell, but outsource production to huge, albeit lesser-known providers of manufacturing services such as Flextronics or Solectron.

Polarising force

The firm as an institution is thus pulled in two directions: to become smaller as well as bigger. Perhaps the economy will one day look like traffic patterns on the Internet. There are a dozen or so websites, mostly portals such as Yahoo! or AOL.com, that attract millions of visitors every day. Then there are millions of websites that are lucky if they get a dozen hits a week. And there is not much in the middle. Similarly, there could be a few dozen giant global concerns that offer more or less standardised services in manufacturing, finance or computer systems which millions of small firms will use.

Much easier to predict than what will happen to the firm is what will happen to contracts. Information technology makes monitoring much cheaper, says Hal Varian, an economics professor at the University of California at Berkeley. And just as good fences make good neighbours, he argues, good monitoring makes good contracts. His favourite example is video shops. Before 1998, they generally paid distributors a whopping $70 for each tape, which meant that they ordered only small numbers of even the most popular flicks. Now they pay a small charge of $3-8 up front and then hand over 40-60% of every rental fee. This has become possible because smart cash registers and network connections are now cheap enough for distributors to monitor sales.

In this instance everybody wins: video shops can afford to order many more copies of popular movies from Hollywood, and consumers do not have to wait for them. But the effect of new technology may not always please all concerned. Software such as Siebel's recently released employee-relationship management program allows companies to monitor their employees more effectively, which makes it easier for them to weed out their worst performers. Siebel fires the bottom 10% of its workforce every year.

The effect of new technology may not always please all concerned

More and better information will also change contracts with suppliers. Vivecon, a start-up founded by Blake Johnson, a Stanford business professor and former investment banker, has developed software that helps firms manage procurement contracts. For example, should they ask for fixed quantities and prices, or should they have flexible agreements? And what should be the penalty if they want to be released from their commitment?

The aim of the game is to structure agreements with suppliers in a way that lowers cost and risk. A manufacturer hoping to launch a new product for which demand is uncertain may not want to get locked into buying a large quantity of a critical component. It might commit itself to a smaller volume, with a guarantee that more will be available, and pay a bit more per unit.

Vivecon also helps firms to choose the right portfolio of these “structured contracts”, along with long-term relationships with suppliers and spot-market purchases. Hewlett-Packard is already using the start-up's software and services to manage the procurement of some of its memory chips and electric power. And that is only the beginning, says Corey Billington, who runs HP's supply-chain services. To him, procurement will increasingly become like trading. Yet looking at Enron, the energy-trading giant which collapsed recently, that might not be such a good idea.

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Computers of the world unite

Jan 31st 2002
From The Economist print edition

The real-time economy is coming, but it will take time—and it will raise problems of its own

REMEMBER Black Monday? On October 19th 1987, the Dow Jones plunged 23%, wiping hundreds of billions of dollars off share values. The crash was blamed on the big brokerage houses' automated trading programs, which magnified a bad day into a calamity. To avoid a repeat, American regulators introduced “circuit breakers” which, among other things, can cut off the direct connection between the big brokers' computers and the trading floor of the New York Stock Exchange.

Will the real-time economy one day need such “circuit breakers”, to avoid the risk that all those automated computer systems monitoring the state of business will have a similar magnifying effect? Or should there even be some sort of tax to slow down information flows, analogous to the one proposed by James Tobin, an American economist, to rein in speculative cross-border capital movements?

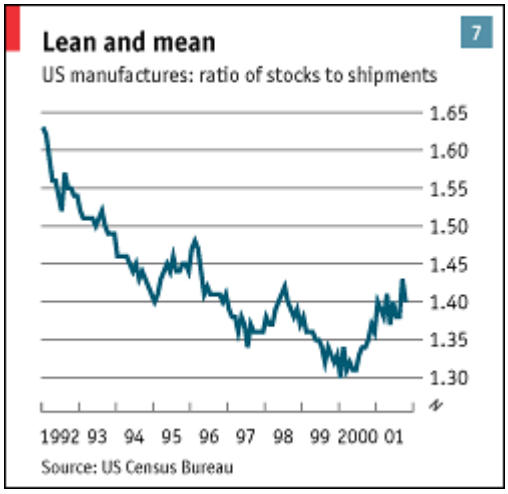
Economists chuckle at these questions, in particular the second. More information is almost always better for markets, they say. Certainly a strong dose of realism is required. The comparison with the financial markets goes only so far. Unless someone invents a teleporter or matter duplicator, rendering much of the economics of scarcity obsolete, the physical economy will always lag behind the flow of information.

Moreover, the real-time economy will take time to materialise in full. If the history of IT is any guide, real-time technology such as web services will probably first disappoint before it starts making a clear difference. Much work will also be needed to prevent poor information to flow in real time, a phenomenon experts call “GIGO” (garbage in, garbage out). But the pace of change will be determined mainly by how fast the economic institutions adapt. “They have been created over several hundred years. No technology will change them immediately,” argues Irving Wladawsky-Berger, one of IBM's leading strategists. Technology, he says, creates new possibilities that people then explore over time. It took firms a generation to learn how to make the best use of electricity—for example, to realise that there was no need to group machines around the power source, as with steam.

So far, even in the computer industry, which is not handicapped by a long history, there are only a few firms that could be said to be operating in real time, or are at least well on their way there. One is Dell, a Texas-based PC maker. When a customer orders a Dell computer online, the information is quickly fed through to the firm's suppliers. At the end of its third quarter the company held only four days' stocks, less than a tenth of the amount kept by its best competitors. Cisco is another poster child of the “new economy”. The networking-equipment giant is able to close its books in a day, and outsources most of its manufacturing.

Yet these examples also show how far the economy still has to go

before becoming real-time. Dell asks most of its suppliers to hold eight to ten days' stocks in hubs that are within two hours' drive from its assembly plants. Cisco, for its part, got hit a year ago by a classic “bullwhip effect” and had to write off $2.5 billion in stock. Its order books did not reflect the real demand. Because of long lead times, customers ordered more than they needed to, as a sort of insurance policy. When the economy slowed down abruptly, these orders evaporated, and Cisco got stuck with components already ordered from suppliers.



Cisco's mishap shows that even the best technology offers no protection against bad management decisions. Yet the firm's rivals, such as Lucent Technologies and Nortel, are in much worse shape. And such problems will only speed up the trend towards real time, because they boost the economic argument for it. After it hit the wall, Cisco increased its IT investment, for example by hooking up the suppliers to its contract manufacturers so they can see the order pipeline and adjust their output accordingly. A recent study, sponsored by Cisco and carried out by reputable economists, estimated that if all public and private organisations in America fully adopted Internet-based technologies, they would save up to $1.4 trillion.

Less risk, or more?

If this ever came to pass, how would it change the economy? Until a year or two ago, it was widely believed that IT would make the economy more fluid, smoothing out the business cycle. More information would allow manufacturers to anticipate demand more accurately and avoid getting stuck with excess stocks, which in turn would reduce, if not eliminate, the variations in stock levels that used to send the economy on harsh downward swings. Alan Greenspan, the chairman of the Federal Reserve, in a speech in June 2000 put it this way: “Information technologies, by improving our real-time understanding of production processes and of the vagaries of consumer demand, are reducing the degree of uncertainty and hence risk.”

Yet two events have cast doubt on the idea that more information will smooth out those swings. First, there was the abrupt and unexpected downturn early last year, which landed Cisco and other firms with a lot of excess stock. The culprit may well have been the very same information that makes supply chains more efficient: firms are able to act in closer alignment. To quote another speech of Mr Greenspan's: “The result is not only faster adjustment, but one that is potentially more synchronised, compressing changes into an even shorter time frame.”

The second event was September 11th. Security measures in the wake of the terrorist attacks on New York and Washington, DC, grounded cargo planes, prevented freight ships from docking and stalled trucks at borders, seriously interrupting supply chains in America. Having slimmed down their stocks and begun relying on just-in-time delivery, some manufacturers were forced to shut down their assembly lines. A better information flow, it appears, can make the economy more vulnerable to events in the real world.

A better information flow, it appears, can make the economy more vulnerable to events in the real world

None of this is necessarily an argument against technology. It is probably true that the faster information flows through the economy, the more abrupt any adjustments will be. However, this does not only mean sudden downturns, but also suggests faster recoveries. Manufacturers would certainly do well to bolster their “safety stock”. But the latest supply-chain-management software can in fact help companies deal with shocks such as those terrorist attacks. Dell, for instance, was able to reconfigure its supply chain quickly, whereas Compaq missed out on shipping 300,000 PCs in the weeks after the attacks.

Unintended consequences

Yet both the sudden downturn and the events of September 11th were a warning that real time has its hazards. As companies increasingly connect and as they automate more and more of their business processes, they create systems that might develop lives of their own, with sometimes unexpected consequences. Everybody's economic health will become increasingly dependent on the smooth

functioning of technology. Luckily the Y2K bug proved harmless, but a software virus, released intentionally, could wreak havoc in the networked economy.

Proponents of the real-time enterprise argue that running a business will become more akin to “flying by wire” or “systems management”, a comparatively little-known branch of the IT industry providing technology for monitoring disparate computer systems and networks. If business bosses become more like pilots or systems managers, then the same sorts of precautions that are used in those fields are called for, says Bob Yellin, vice-president of technology at Tivoli, a unit of IBM and one of the leading systems-management firms. For example, the control systems of American fighter planes are set so that pilots cannot kill themselves by turning too abruptly. Similarly, systems-management software includes algorithms that can detect unusual patterns in data traffic, and mechanisms to shut computers down if they run amok.

There are bound to be accidents in a largely automated real-time economy

There are bound to be accidents in a largely automated real-time economy, as UBS Warburg, a European investment bank, discovered to its cost. Last November a simple typing error left it at least $50m out of pocket. The morning that Dentsu, one of the world's biggest advertising companies, went public on the Tokyo stock exchange, a UBS Warburg trader mistakenly entered a “sell” order of 610,000 Dentsu shares at ¥16 each—instead of 16 Dentsu shares at ¥610,000. Although the trade was cancelled two minutes later, the bank's computers had already sold several thousand shares which it had to buy back at market price.

And to yield its full benefits, the technology needs to be used properly. Just look at a simple example of a feedback control system: anti-lock braking systems, known as ABS. They were supposed to make driving safer by keeping the wheels from skidding. Yet they never lived up to expectations, mainly because drivers used them incorrectly. In the same way, if managers tweak their supply chains too much, they might create a new kind of bullwhip effect.

Yet it would be wrong to conclude that the introduction of new information technology should be slowed down or even blocked altogether. Its drawbacks are not inherent in the technology itself, but arise from the way it is used. Not least, it is worth asking to what extent we want computers to run our lives. In many ways information technology, and particularly the Internet, have made life and work much easier. But innovations such as fax, e-mail and cellphones have also allowed work increasingly to intrude on people's privacy. In an event-driven real-time company, this is likely to get worse, not better.

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Rewarding employees

No prizes for runners-up

Jan 31st 2002
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With pay budgets in trouble, companies need new ways to motivate key staff

Get article background

FEWER American workers will get pay rises in the next few months than at any time for the past 30 years. Instead, at one company in 20, wages have been declining, and at three-quarters pay is flat, according to a recent survey by the National Association for Business Economics (NABE). Companies are therefore thinking harder about who they reward, and why.

Last year American companies slashed pay bills by simply sacking staff. They announced almost 2m job cuts, compared with 614,000 in 2000, according to Challenger Gray & Christmas, a consultancy. The pace of lay-offs seems to have slowed, despite a series of recent bankruptcies, including Enron, Kmart and, this week, Global Crossing: firms announced 161,600 job cuts in December, compared with September's peak of 248,300.

Lay-offs carry costs: cash-strapped companies cannot afford big redundancy payments; and repeated rounds of cuts wreak havoc with morale. To minimise the harm, “measure twice, cut once”, like a careful tailor, advises Bill Coleman of Salary.com, a website that tracks employment news. Or send staff home when demand is slack, as did Hewlett-Packard, a computer giant, over Christmas.

But neither lay-offs nor mandatory time off can help for long with the basic problem: the need to live with slack demand and flat or falling prices. Only 7% of firms surveyed by the NABE had raised their prices in the previous three months. And the future looks similar: nearly a fifth of managers surveyed said they expected the prices they charged for their products to fall over the next three months.

The most obvious way to live with such pressure is to pare employment costs. Some firms have already frozen or even cut pay. Thus Airbus, whose employees were due for a 4% rise in January, has persuaded staff to accept a freeze, and replaced payments for overtime with extra time off.

Companies hate cutting basic pay. But lately, a few embattled businesses have done so. The Tribune newspaper group, America's second-largest, announced in November that it would cut salaries for 140 senior managers by 5% in 2002, and freeze the pay of other employees, because of the advertising slump. At LTU, a German airline, staff agreed in November to give up their Christmas bonus and accept cuts of 5-10% in pay and a two-year freeze in the hope of keeping their jobs.

As companies draw up their pay budgets for 2002, they are being even tougher than they were in 2001. A survey last October by William M. Mercer, a pay consultancy, found that 19% of companies had cut the pay increase they originally planned in their budgets. Steven Gross, head of Mercer's employee compensation practice in America, expects more to do so: in 1990, a year of recession, 1% of employers froze budgets, but that figure climbed to 9% by 1992, as the recession abated. Another survey of American employers, by Towers Perrin in December, found that one in four had decided to freeze the salaries of top managers, and one in seven the pay of other employees too.

But lay-offs and freezes don't make a pay policy. Alan Stewart, the new chief executive of the British arm of Thomas Cook, a travel agency, has already announced redundancies and pay cuts for 2002. Now, he is scrutinising the benefits package, to make sure that staff know its true cost and to let them choose how far they prefer, say, pensions to current pay. He also wants to spread the message that career

progression will not mean earning more each year in the same job, but doing different things in the organisation. In a flat operating structure, it may be hard for people to increase their basic pay. Instead, Mr Stewart talks of rewarding people by enhancing their employability, and he accepts the likely consequence: “We don't mind if good people come in for a couple of years and then leave. In a few more years, we may have a real slot for them.”

Ranking the rank-and-file

Other executives are concentrating on identifying and rewarding their most valuable staff. Marriott, a hotel group, recently redrew its bonus plan. As a result, fewer people win rewards as top performers, but those who do get more, says Karl Fischer, who runs the compensation unit. In the coming year, he will increase Marriott's merit budget by 3%, down (like the industry at large) from 4% last year; but the best staff will receive up to 6%.

Policies such as these have grown easier since the last downturn, because of the spread of variable pay. Almost all American companies now include some form of flexible reward—usually performance bonuses—in their pay packages. Consultants such as Crawford Gillies, of the London office of Bain, help companies to calculate the value of a relationship with a particular kind of customer. They are now starting to do the same with employees, discovering who does most to help the bottom line. With one retailer, the answer turned out to be not the store manager but the merchandising manager, one rank down.

Other consultants, like Diane Gherson, who heads the employee pay consulting practice at Towers Perrin, are busily telling managers how to rank staff in various ways, as is commonly done at General Electric, Intel and Microsoft, and then concentrate rewards on the people at the top.

Even in egalitarian Europe, companies increasingly reward some workers more than others, says Hans Böhm, head of the German Association for Personnel Management. In addition, faced with a growing threat of lay-offs, works councils are becoming more willing to see sackings of workers with high rates of absenteeism.

But benchmarking employees, and then paying them different rates, can turn out to be a minefield if handled badly. Take Ford, which tried to introduce a radical staff-ranking scheme in the late 1990s. Workers protested loudly about the car maker's ranking criteria, and the scheme was, in effect, scrapped.

In any case, sheer shortage of cash will make it hard for many companies to reward good performance generously. In America, most companies are freezing or cutting the overall level of merit bonuses for this year, and one in ten plans to pay no bonuses at all. Those that want rewards to be cost-effective but memorable are seeking the services of firms that specialise in employee recognition, such as O.C. Tanner. Increasingly, says Kent Murdock, its chief executive, companies want to give Rolex watches or crystal knick-knacks to reward special performance. Spend $3,500 on a bonus for a valuable employee, and he is unlikely to weep for joy; spend the same on a fancy watch, and he just might. Now there's a way to motivate frugally.

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Employment contracts

A workers' no-fault divorce

Jan 31st 2002 | NEW YORK
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Want to soften the blow of being laid off? Try “termination without cause”

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AP

Sacked and smug

THE recession in America has convinced everyone from investment bankers to factory workers that the boot is never far away. The situation is made more acute by the fact that, broadly speaking, all but unionised workers are “employees at will”, the “will” being the whim of the employer.

But employers are finding it increasingly difficult to get rid of their worst employees, meaning those with a keen interest in employment law. A claim for age bias can, for instance, be made by old buzzards as soon as they turn 40. Harassment accusations terrify companies. In the film “American Beauty”, the protagonist wins a hefty severance package by threatening to accuse his boss (wrongly) of making a homosexual approach. No one wants to be perceived as a lecher or a bigot. Most firms would rather just settle up.

In response to these pressures, a perk once reserved for only the most senior executives is spreading through the ranks. Whereas two years ago everyone wanted stock options, today they are looking for the vocational equivalent of the no-fault divorce, a contractual clause known as “termination without cause”.

The benefit for a lower-level employee could be continued membership of the company health plan after leaving, or early vesting of stock options and money in retirement plans. A clever negotiator can often receive payment of three months' to a year's salary, says Carol Silverman, a compensation consultant at William M. Mercer.

There are no generally accepted rules for these deals. As is to be expected, top executives provide a beguiling, if unattainable, standard. According to Arnold Pedowitz, an employment lawyer in New York, they may be forgiven large loans granted when they were hired, or offered continued use of company apartments and aircraft, as well as ongoing discounts on company products. With termination like that, who would want to hold on to their job?

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BA thwarted

AA=No-No

Jan 31st 2002
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British Airways' alliance with American Airlines is foiled again

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PITY poor British Airways (BA). Here it was, trying to forge an alliance, only for regulators to put such a high price on its approval that BA and its putative partner, American Airlines (AA), called the whole thing off on January 25th, as they had once done before.

For more than a decade, the British flag carrier has been trying to find close partners in Europe or America, only to be frustrated at every turn. First, in the late 1980s, came a plan for a marketing link with United Airlines, followed by a similar deal with KLM. Both unravelled. Instead, BA bought into USAir (now known as US Airways), only to sell its stake at a loss a few years later. In 1996 BA first tried to merge its transatlantic operations with AA's. But competition officials in Brussels demanded the surrender of 267 slots a week at London Heathrow to make up for the anti-competitive effect of the “virtual merger”.

Last year BA had another go with AA, after failing for a second time to link with KLM. This time, it seemed to receive a warmer reception from the regulators. Even the Department of Justice, America's main antitrust guardian, sought only 126 slots at Heathrow as the price for granting antitrust immunity—a sacrifice that both airlines might have accepted. But the Department of Transportation, lobbied hard by other American carriers that are desperate for more space at crowded Heathrow, such as Delta and Northwest, insisted that 224 slots a week be given up.

So BA and AA withdrew. This led the British government to call off the negotiation, due to begin this week, of an “open-skies” agreement. This would open up Heathrow to more than the two American carriers (AA and United) allowed in at present. The British were prepared to loosen the incumbents' grip on Heathrow only in return for antitrust immunity for the BA/AA alliance.

Barring last-minute surprises, there will now be no Anglo-American bilateral deal. That is because of a provisional decision by the European Court on January 31st, which ruled bilateral deals illegal. As a result, negotiating authority for aviation deals will pass from European Union member states to the European Commission, the EU's executive body. The commission is likely to drive a much harder bargain in a new open-skies deal between America and the EU as a whole. It will, for instance, want to see the domestic American market prised open. That could involve years of horse-trading.

Meanwhile, both BA and AA are reeling from their latest failure to join forces—though less so AA, which does most of its business inside America. For BA, which relies on North Atlantic routes for nearly all its profits, the blow is agonising, and comes as the airline faces a loss of around £700m ($1 billion) for the year ending in March. So far BA has been reluctant to shed its European routes, which nearly all lose money. But with low-fare competition heading towards 20% of total European traffic, now is the time to wield the axe. The danger for BA is that hacking away at its network, and pulling out of loss-making routes, could dry up traffic that uses those routes to gain access to profitable transatlantic flights. Such are the perils of a capital-intensive network industry.

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Global Crossing's bankruptcy

Survival of the slowest

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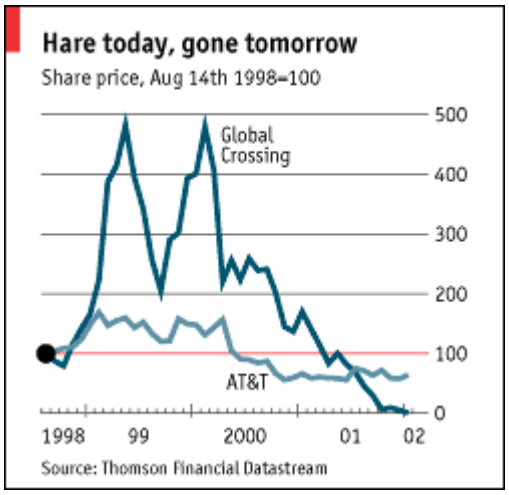
The lessons of one telecoms upstart's spectacular rise and fall

IT TOOK AT&T 30 years to design and build its first undersea telephone cable. Global Crossing, whose 100,000-mile network of fibre-optic cables spans the globe, founded itself, raised billions of dollars, did the spade work—and this week went bust—in less than half a decade. In that short history lies a rich parable of modern America, its excitable capital markets and its wide-eyed faith in new technology. But one lesson stands out. Global Crossing was a start-up: bankers and investors bet billions that it would dethrone the industry's ageing giants. That bet bombed.

Gary Winnick, the flamboyant former junk-bond trader who founded Global Crossing, did not begin with such grand ambitions. His first working asset was an undersea cable between Europe and America. The business was wildly successful, as Mr Winnick leapfrogged the technology used by the established telecoms companies that owned rival undersea cables, and undercut the prices they charged. Demand for speedy data transmission was booming with the rise of the Internet, and Mr Winnick bet that he could repeat his success globally. Global Crossing would beat the industry's lumbering blue chips to this exciting new market.



But Mr Winnick was not the only telecoms boss with a vision. Other start-ups, such as Level 3 and Qwest, had the same idea, as did some established firms. The resulting fibre-optic glut, made worse by a technology recession that savaged corporate IT budgets and whole classes of customer, turned the industry's economics upside down as prices collapsed. When Global Crossing set out, it cost customers hundreds of thousands of dollars a year to lease the world's fastest telecoms circuits. Today, companies can lease circuits with up to nine times as much carrying capacity for as little as one-tenth of the price.

As the owners of the cable infrastructure lost bargaining power and revenues, they tried to change course and sell services, such as managing companies' telecoms networks. Global Crossing went through five chief executives as it struggled to reinvent itself around such services. But by the time the company had realised its mistake, says a rival, “they were well down the runway and the trees at the end just kept growing bigger.”

The crowning irony is that the industry's old-fashioned, old-economy giants look in good shape to clean up. Too slow and too cautious to build their own fibre-optic networks, they can now lease lines from their nippier rivals at rock-bottom prices. Better still, there really is strong demand for network services, as companies try to put all the kit they bought in the booming nineties to better use. Suddenly, network specialists are hard to find, and companies like AT&T are discovering that they have all the right people. On January 23rd AT&T finally launched its own package of managed services, based on a global network that it is partly leasing from rivals.

Global Crossing is still worth something. News of its bankruptcy filing this week came with an announcement that two Asian carriers, Singapore Technologies Telemedia and Hutchison Whampoa, wanted to buy a majority of the company for $750m, a deal that hinges on the generosity of Global Crossing's creditors. They are owed $12.4 billion—no small sum, to be sure, and yet only one-fifth of what Global Crossing was worth at the peak of its fortunes. Other zippy young telecoms companies, including Level 3, are also struggling to service their debts. The slowest do not always finish last.

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Nokia and Motorola in Turkey

Beware Turks bearing phones

Jan 31st 2002 | ANKARA
From The Economist print edition

A salutary tale of Byzantine borrowing

MOTOROLA and Nokia, the world's two largest mobile-phone makers, may be wishing they had called around a bit more before choosing a business partner in Turkey. On January 28th, the American and Finnish companies jointly filed a lawsuit in a New York federal court to reclaim more than $3 billion that they say they are owed by Telsim, Turkey's second-largest mobile-phone operator. Citing 13 counts of wrongdoing by the Uzan family, which controls Telsim, the suit invokes four counts of “criminal activity” under the Racketeer Influenced and Corrupt Organisations Act (RICO), a law often used to indict mobsters.

Kemal Uzan and his two sons, Hakan and Cem, are accused in particular of diverting Nokia and Motorola loans “through an elaborate scheme of deceit and intimidation” to other family-owned companies. The money was supposed to have financed the acquisition of base stations and other gear to bolster Telsim's network. But last May the Uzans, citing liquidity problems after a devaluation of the Turkish lira, failed to pay a $728m instalment to Motorola. The telephone makers say they will present evidence of “a pattern of serial fraud” by the Uzans, whose empire (of TV stations, newspapers, cement companies and a football club) is Berlusconi-esque in its scope and value.

The Uzans, who have long been in dispute with Turkey's capital-markets regulator over some earlier financial shuffling, have dismissed the case as “an obvious attempt to ruin our credibility”. Warnings that Turkey's own credibility would suffer and foreign investors shy away—repeated most recently by President George Bush during his meeting in January with Bulent Ecevit, the Turkish prime minister, in Washington—appear to have had little impact on the Uzans. The family seems to be more charitable abroad than it is at home. In return for attendance at a lavish dinner in Buckingham Palace last summer, Cem Uzan gave generously to the Prince of Wales Foundation, a charity set up by the heir to the British throne.

One person to have unwittingly benefited already from the lawsuit is Bill Gates. The world's richest man was to have been Cem Uzan's neighbour at the top of the Trump World Tower in New York. But Mr Uzan is believed to have forfeited his $10m deposit on the $38m property to keep it out of Motorola's hands.

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Russian business leaders

Boss class blues

Jan 31st 2002 | MOSCOW
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Russia's top businessmen are squeezed between politics and economics

IN THE early years of Russian capitalism, business problems tended to be nasty but simple—such as a rocket-propelled grenade aimed at your car. Now, personal security is less of a worry for the men running Russia's big businesses. The new challenges are subtler.

This reflects the end of the first post-communist business model (grab the cash flow and then the assets, shunt money abroad and bribe officials to keep their eyes shut). In the past few years this has started to change, sharply in some cases. One reason is that rich Russians are thinking a bit more long-term anyway. Flight capital returning from Cyprus is one of the country's biggest sources of foreign investment. When thieving managers become investors, they prefer stability to anarchy. Some have even begun to realise that a high share price can make them much richer. Companies that try consistently to please their shareholders, such as Yukos, an oil producer, trade at a hefty premium to comparable businesses that do not, such as Lukoil, Russia's biggest oil company.

Secondly, the state is stronger. Businessmen no longer meddle in politics. Those who once did, such as Vladimir Gusinsky, a media tycoon, and Boris Berezovsky, a car dealer made good, are in exile, facing arrest if they return. The state is also now much tougher—albeit still selectively—on boardroom shenanigans. Some of the richest and most powerful figures from the past era, such as Pavel Borodin, who ran the Kremlin's own sprawling property empire, or Nikolai Aksyonenko, the railways chief, have been booted sideways or even sacked.

Businessmen no longer meddle in politics. Those who once did are in exile

Others have been less lucky. Three senior managers from Gazprom, the national gas company, were arrested last month. Two are still in jail awaiting trial. All were involved in a complicated share shuffle that would have reduced the company's stake in one of its key assets. This week, Yuri Vyakhirev, head of the highly profitable gas-export division (and, coincidentally, the son of a former chief executive), also resigned following some inquiries by the prosecutor's office.

Although attacking the authorities head-on is unwise, Russian bosses are lobbying hard. An old grouping of Soviet-era bosses, which used to huff and puff against “wild capitalism”, has now been taken over by new tycoons. They complained last week that the prosecutors' zeal in locking up Gazprom managers was damaging the country's image. The group's head, Arkady Volsky, said that “sudden moves” could “undermine trust in the Russian economy” and—heaven forbid—give Russian business a “criminal reputation”.

But satisfying the Kremlin means more than keeping a clean nose and a low profile. It may mean making room for a rival whose political connections are better than yours. In mobile telephony, for example, two of Russia's most shareholder-friendly firms, VimpelCom and MTS, are having to cope with a new competitor, Sonic Duo, which has gained regional licences and frequencies with remarkable speed, and also happens to have strong links with the powers-that-be.

Big companies may also have to do the Kremlin's dirty work. Lukoil, for example, has just used a legal loophole to close Russia's last independently owned national television station, TV-6, in which it held a small stake. There was no obvious commercial rationale for the move. Gazprom played a similar role in shutting Mr Gusinsky's NTV last year.

The biggest looming challenge for Russian bosses, though, is Russia's membership of the World Trade Organisation (WTO), expected as early as next year. Applied strictly, the WTO's rules would deliver a

huge competitive shock to the large parts of Russian industry that still churn out uncompetitive, clunky products.

Worrying about their share price, toeing the government line and facing the threat of real competition: Russian businessmen have a lot of strange new things to get used to.

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Kirch in trouble

Crunch time

Jan 31st 2002
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Things go from bad to worse

IF IT was wobbly before, it now looks downright precarious. In recent months rumours have grown that the Kirch group, a giant German media empire controlled by Leo Kirch and indebted to the tune of up to *euro*6.5 billion ($5.6 billion), could go bust. This week its outlook darkened substantially, when a longstanding equity investor, Axel Springer Verlag, Germany's largest newspaper-publishing group, in effect expressed a vote of no confidence in KirchMedia, one of the three main parts of the Kirch empire.

Axel Springer announced that it had exercised an option to sell its 11.5% stake in ProSiebenSat.1, a listed German commercial-TV group, to KirchMedia, which already owns 52.5%, for *euro*767m. According to Axel Springer, the money is payable within three months. The problem for Kirch is that it has no cash. Though analysts expected that the option would be exercised—the market value of Axel Springer's stake is only around *euro*100m—they had expected flexibility on the timing of the payment. But talks between the two groups broke down last week, even though Kirch had apparently offered Axel Springer, in which it holds a 40% stake, a substantial chunk of KirchMedia as security.

KirchMedia is in the process of merging with ProSiebenSat.1, and wants to use the deal to take over ProSiebenSat.1's stockmarket listing and raise money through a sale of new shares, some of which it was hoping to use to pay Axel Springer. Analysts say the flotation, which is due in the summer, may now be in jeopardy, though Kirch denies this. Unless it can raise large sums from the flotation and pay off some of its huge debts, it could go bust.

Kirch's latest tack is to imply that it has longer than three months to come up with Axel Springer's money. It says that the option agreement is invalid because, at Axel Springer's request, “material aspects were not included” when the agreement was drawn up. Balderdash, retorts Axel Springer.

Even if Axel Springer's announcement is a negotiating ploy, its timing is a blow to Kirch. In December, Dresdner Bank, one of Kirch's main lenders, extended the term of a secured loan of *euro*460m only after it was given additional security. The bank has now given Kirch until April to repay the money.

This leaves one main question. If a trusted bank and an equity investor want their money back, who will invest in KirchMedia this summer?

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Steel in China

Lovingly touched by Mao

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A huge steel market that offers little for its own producers

THE world's two biggest consumers of steel, China and America, appear to have much in common. In both countries, steel mills have been going bust, making losses or, at best, meagre profits. And in both, the industry is asking for protectionism to buy time and consolidate.

In one key respect, however, the two markets could not be more different, and it is the larger, China, that represents the best remaining hope for an industry suffering globally from sluggish growth and a capacity glut. Why? Because not only is China's demand for steel growing furiously, but its domestic industry is in such a shambles that it will not be able to supply the country's needs for years to come.

In the two decades since China embarked on market reforms, its steel consumption has quadrupled. In 2000, China passed America as the world's largest market. But that is only the beginning, says Jonathan Woetzel of McKinsey in Shanghai. China still consumes only 92 kilograms per head each year—far less than other developing countries like Malaysia, which uses 450 kilograms per head. Even if that gap is only partly closed, Chinese demand should double during this decade.

A boon for Chinese steel makers, then? Unlikely. Steel has always been a favourite with central planners, but Mao Zedong had a particular fetish for it. In the 1950s, millions of abjectly poor Chinese were encouraged to contribute their tools and other metal possessions to the smelters, so that China might “catch up” with developed countries in production. In the 1960s, Mao decided that each region was to be self-sufficient, and hence should have its own steel mill. Steel was the last sector to emerge from central planning, four years ago. Even today the industry, which employs 3m workers, remains in the clutches of party politics.

The result of all this is three big problems. The first is fragmentation. China is dotted with 1,042 steel mills, 95% of which make losses. The second is thus inefficiency. The average Chinese worker made 41 tonnes of steel in 1999, according to Pitzi Lau, an analyst at Salomon Smith Barney; his counterpart at South Korea's POSCO (now the biggest steel maker in the world) made 1,362 tonnes. The third problem is that China's mills are good at pumping out lots of steel of the type that nobody wants.

The government's intended solution for the first two problems is consolidation. Since the mills are state-owned, merging them is not difficult. Reaping the benefits from mergers, though, is tricky, since laying off all excess workers at once is impossible. The national champion, Baoshan, a product of several mergers, is barely profitable and remains a dwarf compared to steel makers in other countries.

Solving the wrong-product problem is proving just as difficult. The central planners have left China well equipped to make the long steel bars used in buildings and railways. These are easy to make, but there is little money in them. More attractive is the market for the sophisticated sheets used in cars and computers. These products, however, require technology and skills that the Chinese never bothered to acquire. So China has to import them.

So far, this has been good news mostly for the big steel exporters in Japan, South Korea and Taiwan,

which together account for two-thirds of China's imports. As America's economy went into recession last year, and as the Bush administration began considering new tariffs to protect American steel makers, Asian giants such as POSCO and Japan's Nippon Steel absorbed some of the shock by diverting even more exports to mainland China.

China's recent entry into the World Trade Organisation helps too. Membership commits China to phase out tariffs on most steel products by 2004, with half of those cuts due this year. This is good for China, which will be able to industrialise more cheaply. But it makes life more difficult for China's steel industry. The government now hopes that foreigners will not only export to China, but also invest in it. Some western steel makers, such as ThyssenKrupp, already have joint ventures in China, usually near the Chinese plants of customers from home, like Volkswagen. In time, this infusion of capital and knowledge may even turn one or two of China's steel makers into world heavyweights.

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Anglo American's mining setbacks

Out of Africa?

Jan 31st 2002 | JOHANNESBURG
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Shy of Zambia's copper, but not, the mining group insists, of Africa

JUST two years after a subsidiary of Anglo American, a South African mining giant, bought most of Zambia's state-run copper mines, they look likely to close. A low copper price, bigger competitors, technical troubles and spiralling costs have hurt Konkola Copper Mines, which has already run up over $100m in losses. Recovery and the development of a new deep mine would need another $1 billion of external funds. Unless the copper price rises, or a buyer (perhaps the government) steps in, the mines will shut within months.

All this is terrible news for Zambia, already buffeted by the woes of next-door Zimbabwe. Some 10,000 people may lose their jobs. Copper provides roughly two-thirds of Zambia's foreign-exchange earnings, mostly through Anglo. Worse, on January 29th another large South African mining group, Anglovaal Mining, said it was writing down by half the value of its Zambian operations. A slump in copper exports would wipe out Zambia's expected 5% annual growth this year.

Nor is this good news for Anglo, which will write off at least $350m from its foray. The company's base-metals division has been losing money, mainly because of low prices for zinc, nickel and copper. It may yet have to close other mines. Anglo points out that its core interests are elsewhere: it made a profit of $277m from platinum mining in South Africa alone in the six months to last July.

But the Zambian retreat follows a defeat for another subsidiary, AngloGold. In January it was beaten by Newmont, an American rival, in a bidding war for a much-coveted Australian gold miner, Normandy. Although AngloGold has various lucrative mines in Africa, it says investors want it to expand elsewhere in the world.

Anglo American says it hopes to be a “focused global mining group” as the industry consolidates. Focused? On the contrary, it plans to dig up many different sorts of minerals, to spread the risk of price changes, and plans to bolster its non-African operations. In 1999 the group listed on the London Stock Exchange, and last year it untangled itself from a complicated cross-ownership scheme with De Beers, a South African diamond company. After these changes, some say Anglo is turning away from Africa. Tony Trahar, its chief executive, insists that the company is “comfortable doing business” there. Well, except in Zambia.

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Face value

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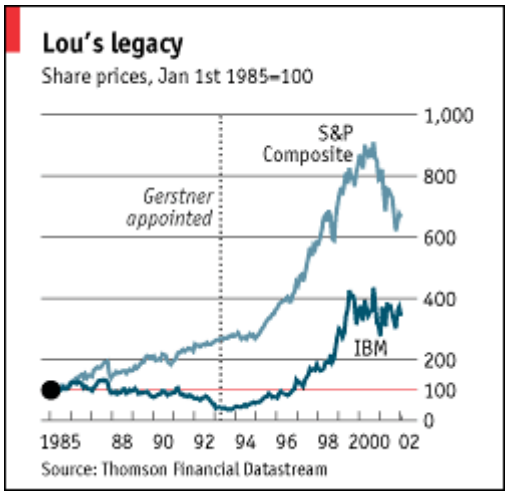
Jan 31st 2002
From The Economist print edition

Will Sam Palmisano, IBM's new boss, be a worthy successor to Lou Gerstner?

IT WAS one of the most impressive turnarounds in business history. In April 1993, Lou Gerstner took the helm at IBM as the giant computer maker was struggling to survive. A sprawling, incoherent company that made everything from microprocessors to mainframes, Big Blue (as IBM is known) had been in the red since 1990; in 1993 it announced a loss of $8.1 billion. Mr Gerstner was given a clear, though daunting, objective: save the company.

Save it he did. In the nine years since he took over, IBM's share price has risen eightfold, and its market value has increased by $150 billion. More focused than ever before, IBM has weathered the technology downturn better than most of its rivals (see chart). Its mainframe business is booming again, and its global services division is now the largest consultancy around. This week Mr Gerstner announced that he would step aside on March 1st, his 60th birthday, to make way for his chosen successor as chief executive, Sam Palmisano. Mr Gerstner is thus quitting while he is on top (though he will stay on as chairman until the end of the year, to ensure a smooth transition). What can Mr Palmisano possibly do as an encore?



Keep IBM on target, say analysts, most of whom expect Mr Palmisano to make few changes to Mr Gerstner's winning strategy. That strategy involved rebuilding the company around its services arm, which Mr Gerstner realised could function as the glue to bind IBM's disparate divisions together, packaging hardware and software together to provide complete systems for customers. The global services unit is now the fastest-growing bit of IBM, and currently accounts for around 41% of the company's revenues, up from 21% in 1996.

The emphasis on selling services, rather than shifting boxes, helped insulate IBM from the demise of the dotcoms. Mr Gerstner never had much time for them anyway; he described them in 1999 as "fireflies before the storm" and preferred instead to push the benefits of the Internet to established firms. The multi-year contracts that such firms typically take out with IBM to manage their networks or host their websites provide a reliable source of revenue. And the success of the global services arm is due in no small part to Mr Palmisano, who presided over it during its early, rapid expansion.

Mr Palmisano was also involved with another of IBM's cunning strategic moves: its embrace of Linux, the free, open-source operating system that is maintained by a vast collective of programmers who collaborate online. While in charge of IBM's server division, Mr Palmisano renamed the company's various product lines to reduce customer confusion, and pushed the idea of getting Linux to run on all of them to improve compatibility between what is, in reality, a bewildering range of systems. IBM spent $1 billion promoting Linux last year, and claims to have made almost all of it back again in increased sales.

A blue-blooded insider

As Mr Gerstner's heir-apparent since last July, and having helped shape IBM's current strategy, Mr Palmisano is hardly likely to make any sudden changes in direction. But while the strategy remains the same, the two men are very different. Mr Gerstner was the first outsider ever to run IBM; Mr Palmisano, in contrast, is an insider, having worked at IBM for nearly 30 of his 50 years. “Sam bleeds Blue,” as Mr Gerstner colourfully put it in a memo to employees announcing the transition.

The two men's personalities and management styles differ too. Mr Gerstner is brusque and autocratic, and rarely speaks to the press. He sparked controversy on his appointment when he was asked what his vision for the company was, and responded that “the last thing IBM needs now is a vision.” As soon as he took over, he went through the company closely, looking at the rationale behind each unit. He then cut tens of thousands of jobs. His style, in short, was ideal for managing the company's turnaround and recovery.

Mr Palmisano, on the other hand, is more gregarious, more at ease making small talk with customers, so that he may become the public face of IBM in a way that Mr Gerstner did not. The stereotype of the IBM salesman is a man in a blue suit. “Sam is one of those guys,” says one industry observer. “He is like a supercharged version of the guy in the blue suit.” This does not mean that Mr Palmisano is a throwback to IBM's past. Indeed, as both an assistant to John Akers, a former chairman, and as one of the architects of the company's current strategy, Mr Palmisano embodies IBM's past and future. Speaking at a Linux conference last year, he even—gasp—chose not to wear a tie.

But his grip is firm. When a division is not doing as well as expected, he intensively reviews its performance via early-morning teleconferences, sometimes several times a week. He is said to keep “hit lists” of rival firms' largest clients, and monitors how well IBM is doing at poaching them. Whereas Mr Gerstner is blunt, Mr Palmisano's style has been described as “bluntness with a smile”. One analyst sums him up as “a cost-cutter and an execution guy”. He would therefore seem to be well qualified to keep a successful company on the right track.

That will not simply be a matter of letting things tick along as they are now, however. To keep investors happy, Mr Palmisano must keep IBM's engine, services, growing steadily. But it is enormous already, and IBM's rivals are starting to grumble that its dominance could herald a return to old, monopolistic ways, at least in services. IBM, remember, was once the villain of the industry, a role that it has since ceded to Microsoft. Mr Palmisano must balance a drive for aggressive growth, and a desire to prove himself a worthy successor to Mr Gerstner, with the risk that IBM could come to be seen as the villain once again.

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Globalisation

Is it at risk?

Jan 31st 2002 | WASHINGTON, DC
From The Economist print edition

Recent events have rattled the global economic order. Were they temporary setbacks, or something worse?

“LEADERSHIP in fragile times” is the theme of this year's World Economic Forum, the annual conference for the great and the good of the global economy that opened in New York this week. The assembled businessmen and politicians rarely notice the official agenda at this event: their real purpose is to see and be seen with each other. But for once that theme is apt. America has declared war on terrorism, Argentina's financial system has collapsed, and the world economy is enduring the worst slowdown in a generation. Does all this, as some argue, pose a threat to the liberal international order—that is, to globalisation?

For the first time in the modern era of global integration, the world's biggest economies (and many emerging ones with them) have stalled at the same time. As a result, the principal measures of economic integration, cross-border flows of goods and capital, showed no advance last year. After growing by 12% in 2000 and by an average of 7% a year throughout the 1990s, the volume of global trade was virtually stagnant in 2001. Foreign direct investment flows also slumped, from more than $1.3 trillion in 2000 to barely half that in 2001, according to UNCTAD, a United Nations agency.

If the business cycle had the biggest immediate effect on trade and investment, the other shocks of 2001—September 11th and the collapse of Argentina—raise more fundamental questions. The horror at the World Trade Centre exposed the dark side of global interconnections: the ease with which the West's enemies and their resources can move around the world. As for Argentina, it has long been an exemplar of global integration: during the 1990s it abolished trade barriers, opened its capital markets to international money and sold everything, from banks to ports, to foreign investors. Yet in December 2001 Argentina defaulted on $155 billion of debt and collapsed ignominiously into political and economic chaos.

Pessimists were quick to suggest that globalisation cannot survive these shocks. Within days of the World Trade Centre attacks, John Gray, a British political scientist and well-known globo-critic, wrote: “The era of globalisation is over. The entire view of the world that supported the markets' faith in globalisation has melted down.” Stephen Roach, chief economist at Morgan Stanley, suggested the attacks and their aftermath “may bring about the demise [of globalisation]”. Dani Rodrik, an economist at Harvard University and a prominent analyst of globalisation, wrote that Argentina's demise “offers a humbling lesson on the limits of economic globalisation in an age of political sovereignty”. Eduardo Duhalde, Argentina's current president, calls the old system “broken”.

Such warnings should not be dismissed out of hand. The lesson of the early 20th century, easily forgotten during the boom years of the late 1990s, is that globalisation is reversible. It was derailed by

war (in 1914) and by economic policy during recession (in the early 1930s). This time, global integration might stall if the risk and cost of doing business abroad rises (perhaps as a consequence of heightened fears about security), or if governments once more turn their backs on open trade and capital flows. Either of these threats could prove decisive. The question is, will they?

Better than it looks

The war on terrorism could conceivably clog the arteries of the global economy: higher insurance premiums, longer delays at borders and higher transport costs are all possible sources of a “security tax” that would make global integration more costly. So far, however, the evidence that this has happened is patchy. Certainly, insurance costs for firms are rising. Indeed, Morgan Stanley analysts estimate that commercial insurance premiums for American firms will rise from $148 billion in 2000 to between $210 billion and $240 billion in 2002. Air travel has become more vexatious as security checks grow more frequent and rigorous. Air freight is more expensive. The World Bank estimates that air-freight costs have risen by around 15% since September 11th. Much of that may prove permanent.

But most of the goods that are traded internationally are sent by sea, and have been little affected. Vulnerable regions, such as South Asia, have seen transport costs rise, but there is little evidence that big ports or popular shipping lines have been substantially set back. Premiums for insurance against terrorist attacks have risen, but they are still a small fraction of shipping costs. A recent study by Craig VanGrasstek, a Washington-based trade expert, finds no discernible increase in shipping costs for American imports since September 11th. This could change, particularly if new security procedures are introduced. America's authorities, in particular, are debating extensive new measures to improve shipping security, such as introducing electronic seals on all containers, as part of increased “homeland defence”. So far, though, the war on terrorism seems to have had a relatively small impact.

Similarly, terrorism does not seem to be causing firms to abandon global investment. The collapse in foreign direct investment in 2001 was due primarily to a halt in mergers and acquisitions of companies in rich countries. These deals became less attractive as share prices fell. But flows of foreign direct investment to developing countries held up fairly well, falling only from $240 billion to $225 billion, according to UNCTAD.

True, some firms have made high-profile decisions to reduce foreign investments. Several financial institutions, including Merrill Lynch, Morgan Stanley and Charles Schwab, have scaled back their operations in Japan. Gateway Computers pulled out of Ireland and announced it was abandoning its global ambitions. Home Depot, an American retailer, has moved out of Argentina and Chile. But there is no broader evidence that many businesses are changing their investment plans. A recent survey by the United Nations showed that 70% of respondents expected investment and employment in their foreign operations to rise over the next three years. Another survey of executives in American multinational firms by PricewaterhouseCoopers, an accountancy firm, showed that 27% planned international expansion in the next year, up from 17% before the terrorist attacks.

At first sight, financial flows to emerging markets—bank loans, bonds and cross-border investment in shares—seem to have been worst affected. In its latest analysis, published this week, the Institute for International Finance (IIF), a group that represents financial institutions, reckons that the 29 biggest emerging economies saw a net outflow of more than $30 billion in financial flows last year. Much of this was money fleeing Argentina and Turkey, which also had a financial crisis. But it adds to a broader trend. Cumulatively, over the past four years, emerging economies have received a mere $19 billion in these kinds of financial flows, as they were buffeted first by the Asian crisis of 1997 and then by the Russian debacle of 1998. Compare this paltry figure with the $655 billion the same emerging markets received between 1994 and 1997, as banks fell over themselves to lend and investors lapped up emerging-market bonds.

Now, the emerging-market bubble has clearly deflated, and with it has gone the breathless talk of a truly global capital market. Some analysts even fear that things could get worse. Bill Cline, chief economist at the IIF, reckons that a messy debt-restructuring in Argentina could jeopardise the entire asset class of emerging-market bonds.

Such pessimism may prove excessive. In many ways, global capital markets were remarkably resilient in 2001. Financial markets recovered quickly after September 11th. And, when it finally happened in December 2001, Argentina's default on $155 billion of debt (the largest in history) had no wider repercussions.

During the past couple of months, share prices and currencies in many emerging markets have been rising and bond yield spreads have fallen, bolstered by lower short-term interest rates in the United States. Though the spread between the yield of American treasuries and emerging-market bonds rose after September 11th, it has fallen since mid-October. If you exclude Argentina, spreads between J.P. Morgan's benchmark index for emerging-market bonds and American treasuries have narrowed by more than two percentage points since the end of September and are at their lowest level since early 1998. Since Argentina defaulted in December 2001, several emerging markets, including Brazil and Turkey, have issued new bonds.

In short, the contagion that worsened previous emerging-market crises, particularly after Russia's default in 1998, has not reappeared. That is partly because Argentina's debt default (unlike Russia's) was widely expected. In a “slow-motion” collapse, investors have plenty of time to anticipate bad news, and run. In addition, perhaps, the market for emerging-market bonds has matured: hit by a series of crises, investors have become reluctant to pour their money into any old emerging economy, and are getting better at distinguishing between good and bad risks. The result is a smaller market, which is far from “global”: only a handful of countries now have access to international financial flows. But it is also a safer one. No longer, for instance, do Brazilian and Argentine bonds move in tandem simply because the two countries happen to be next to each other on the map.

Good news for some

In short, most aspects of globalisation have survived the shocks of 2001 remarkably well. But at the same time these events have worsened a long-standing problem. Global integration is a selective phenomenon. Many countries benefit; many do not.

Measured either in terms of trade or direct investment, integration has been highly uneven. A few developing countries have managed to increase their trade a lot. They are the same countries that have attracted the lion's share of foreign direct investment. And they have also seen the benefits of openness. A recent study by the World Bank showed that 24 countries, home to 3 billion people, and including China, Argentina, Brazil, India and the Philippines, have substantially increased their trade-to-GDP ratios over the past 20 years. These are the low-income “globalisers”. On average, their growth rates have improved as well. GDP per head in these economies grew by an average of 5% a year during the 1990s (compared with 2% in rich countries) and their poverty rates declined.

However, another 2 billion people live in countries that have become less rather than more globalised. In these countries—including Pakistan and much of Africa—trade has diminished in relation to national income, economic growth has been stagnant, and poverty has risen. According to the World Bank, income per head in these “non-globalising” countries fell, on average, by 1% a year during the 1990s.

In short, globalisation is not, and never was, global. Much of the world, home to one-third of its people and including large tracts of Africa and many Muslim countries, has simply failed to participate. The shocks of 2001 now risk worsening this long-standing marginalisation. The global recession hit the prices of commodities from oil to cocoa—and it is commodities that still dominate the non-globalising countries' exports. Many of these countries also rely heavily on tourism—an industry hit especially hard since September 11th. Moreover, any rise in transport costs may harm such countries most.

September 11th also offered powerful evidence of the danger to others when countries fall further behind. Failed states and impoverished economies can be havens for terrorists. After the attacks on New York and Washington, no country—least of all the United States—can believe it is immune from the effects of poverty and political collapse halfway around the globe. Fortunately, both rich and poor countries seemed to draw the right lessons from this. The goal must be to spread the benefits of globalisation more widely.

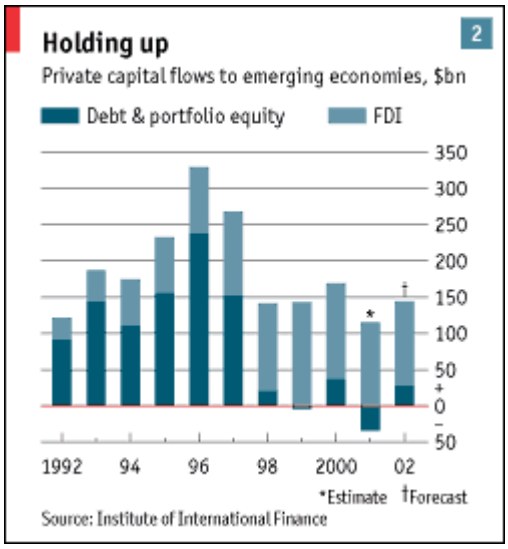
A silver lining?

For rich countries that has meant concentrating on trade and, to a lesser extent, on aid. The rich world's

leaders were determined to launch a new round of global trade talks in November 2001. And the launch that resulted promised talks focused especially on the needs of the poor world. Gordon Brown, Britain's finance minister, called on rich countries to double their aid from $50 billion a year to $100 billion. He enjoys the support of many other rich-country governments. Colin Powell, America's secretary of state, has also spoken out in favour of more aid.

Poor countries, for their part, continue to try to promote trade and direct investment, while taking more care than before (more care than they were hitherto advised to take) about opening their capital markets. Surprisingly, perhaps, Argentina's Mr Duhalde is not representative. When he says he regards his country's plight as evidence of a broken international system, his is a lonely voice. Even he has tempered his complaints recently.

Most developing-country governments view Argentina's collapse as an indictment not of economic liberalisation, but of specific macroeconomic failures—namely, keeping a fixed exchange rate for too long and relying on foreign borrowing to fund profligate government spending. Floating exchange rates are now the norm throughout emerging economies. And caution is the watchword in foreign borrowing. Countries such as India and China have expanded their trade but have gone more slowly on opening their capital accounts. Meanwhile, poor-country governments are keen on further trade liberalisation—which is why they signed up to the new round of global trade talks in Doha last year.



The Doha round will bring particular benefits for the developing countries. Liberalisation of farm trade is high on the agenda. The current rules hurt the poorest countries especially. (Subsidies for farmers in rich countries are worth around $1 billion a day—more than six times as much as the rich countries' entire foreign-aid budget.) The round also promises greater access to rich-country markets in textiles and other labour-intensive manufactured goods. Since more than 70% of the exports of the poorest countries are farm goods and textiles, the potential benefits are big.

Moreover, as a global trade negotiation, the Doha round will prompt poor countries to lower barriers against each other's goods. Average tariffs for manufactured goods are four times higher for trade between poor countries than for exports to rich countries. The Doha agenda also offers specific technical and financial help for poor countries with the mechanics of integrating into the global trade system. Overall, the World Bank calculates that broad progress toward freer trade, in which the Doha round will be decisive, could increase poor countries'GDP by an extra $1.5 trillion by 2015 and lift an extra 320m people out of poverty.

Unfortunately, there are already plenty of reasons to worry about the fate of the Doha trade talks. Some poor countries already seem to be back-pedalling. In Geneva, the start of negotiations has been marred by bickering over who will take the chair and how the talks will be structured. And the close co-operation between the United States and the European Union is being tested by several bilateral tiffs, particularly over America's imminent decision to impose tariffs on steel imports and its tax treatment of the foreign subsidiaries of American firms. Europe charges, and the World Trade Organisation agrees, that these constitute an export subsidy. While both sides are trying hard to solve these problems amicably, they undoubtedly muddy the agenda.

Worse, there are few signs that either Europe or the United States is willing to defeat the vested interests that demand trade restrictions in textiles and farming. America's Congress is about to pass a farm bill that substantially increases subsidies to farmers. Before it agreed to the trade-promotion authority (“fast track”) that the administration needs when it conducts trade negotiations, America's House of Representatives insisted on a number of side agreements that will make freer trade in textiles and agriculture harder. Even Pakistan, one of America's most important and most vulnerable allies in the war against terrorism, has as yet received no increases in market access for textiles, by far its main export.

America's hopes for regional trade integration have faded too. The Free Trade Area of the Americas was initially high among George Bush's trade priorities. Argentina's collapse has set back these hopes. Mr Bush said recently that he now wanted to create a free-trade area with Central America—a much less ambitious aim than that of creating free trade throughout the hemisphere by 2005.

If the outlook for trade liberalisation is mixed, the prospect for more generous aid is worse. Rich countries have proclaimed ambitious development goals: cutting poverty in half, reducing infant mortality by two-thirds and providing universal primary education by 2015. The United Nations is holding a grand meeting on aid in Mexico in March. It hopes to build on the momentum of Doha.

Yet, despite the call for an extra $50 billion in aid, there seems little chance of action, largely because of American stinginess. The Bush administration has vetoed any reference to doubling aid flows at the Mexican conference. Paul O'Neill, America's treasury secretary, says he “would like to see evidence of what works before making new commitments”. America contributes only 0.1% of its GDP in foreign aid, by far the lowest share of any industrialised country. If America does not take the lead, there is little chance of a more generous provision of aid.

Nor is there much hope for the third potential source of help for the world's poor. International migration could do even more than trade to help the poorest countries. One estimate, by Harvard's Mr Rodrik, suggests that an increase in temporary migrants from poor countries equivalent to 3% of the rich-country workforce would boost developing countries' incomes by $200 billion a year, more than the new trade round. However, the impact of September 11th has, if anything, made the prospect of freer movement of people even more elusive. Talks between America and Mexico on immigration reform and amnesties for illegal immigrants are being allowed to drift.

Over the next 20 years, the rich world's population will fall slightly, while the developing world will acquire 2 billion extra people, many of them in countries that are currently political and economic failures. Unless, with help from the rich countries and from each other, they can find ways to integrate into the international economy, much of the potential gains from globalisation will be lost. The rich countries too will pay a price for that failure. Despite the seeming resilience to the shocks of 2001, these are fragile times.

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Deutsche Bank

Deutsche's American dream

Jan 31st 2002 | FRANKFURT AND LONDON
From The Economist print edition

Germany's biggest bank regroups to storm New York

Get article background

KARL MAY, a pre-war novelist, fuelled German fantasies about the wild west, where the spirit could roam free and perform several heroic feats a day. The same fantasies lure Deutsche Bank ever farther from its safe haven in Frankfurt, to compete with indigenous American firms in New York, Chicago—and London. This week, the bank took another step west, but its journey is incomplete.

Josef Ackermann cleared his way to becoming, in effect, an American-style chief executive of Deutsche Bank, from May 23rd. He shrank the statutory managing board (the *Vorstand*) from eight to five members and created beneath it a 12-man group executive committee, chaired by himself. Rolf Breuer will make way for Mr Ackermann as speaker of the *Vorstand* too, when he moves up to the bank's supervisory board in May.

The new structure gives the *Vorstand* a strategy-making role, while the group executive committee, on which the *Vorstand* members also sit alongside seven business managers, runs the bank day to day. Decision-making should happen where the business is done—in London or New York, just as easily as in Frankfurt. Deutsche Bank, after all, is already a global bank.

Mr Ackermann, a 53-year-old Swiss who joined the bank from Credit Suisse in 1996, has fought a smart campaign to become the undisputed boss. German corporate law shuns the idea of a chief executive, in favour of a *Vorstand* with collective responsibility. Anglo-Saxon practice prefers a board on which executives take responsibility for their own business lines. Deutsche Bank's new structure is a compromise which still needs the approval of bank supervisors in Bonn; but the bankers themselves say that it complies with stock-exchange and banking laws.

Why go to all this trouble when other German companies—Allianz, Siemens, HypoVereinsbank—simply lionise their main man on the managing board and call him chief executive abroad? Deutsche Bank is more like a bunch of franchises that include an investment bank, an asset-management arm, a retail bank, a commercial bank and a private bank for the well-off. It belongs to a group of big banks, including Citigroup, UBS and Credit Suisse, that believe these different bits can be made to fit together. At the same time, the businesses must be managed in different ways, with an autonomy that befits Karl May's frontiersmen.

The hidden agenda is access to capital. All businesses are allocated capital and are measured by their risk-weighted return on equity. Investment banking is hungry for capital, but the investment bankers argue that it produces superior returns. Far better, anyway, than cost-intensive domestic banking in

Germany, which the bank has spent a year trying to marry with other distribution channels.

Mr Ackermann's investment bankers dominate the executive committee and they will be able to bid more effectively for capital. More is likely to come on stream this year, thanks to new German tax laws which exempt the sale of corporate shareholdings from capital-gains tax. That, in theory, liberates Deutsche Bank's entire portfolio of industrial holdings, worth around *euro*18 billion ($15.5 billion).

That may be one reason why two *Vorstand* members, Jürgen Fitschen, in charge of transaction banking, and Michael Philipp, who runs asset management, were apparently happy to leave the board and join the group executive committee. The *Vorstand* members will not run businesses but only fulfil central functions such as operations, finance, risk and human resources. According to German law, however, they can in theory veto executive-committee decisions.

Someone not so happy to see this power shift was Thomas Fischer, chief risk officer, who resigned on January 30th. Mr Fischer, once seen as a contender for the top job, championed a pro-Germany faction reluctant to see change in the traditional power structure of the bank. Sceptics in the German press argue that the changes threaten German corporate governance, and will reduce the bank's role as a supporter of smaller German firms. Worse still, it might herald a move of Deutsche Bank's headquarters to London or New York (adamantly denied by the bank): a blow to Frankfurt as a financial centre. Mr Fischer's departure is an embarrassment, since early blueprints of the new structure had him in a pivotal role as chief risk officer, and hence the senior contact with bank supervisors in Bonn. His replacement will have to work hard to keep the regulators happy.

Share analysts may also be hard to please. Deutsche Bank produced poor returns in 2001, although a move to American accounting and a change in German tax laws fogs comparison. Investment banking contributed 80% to pre-tax earnings compared with 55% in 2000. Wealth management continued to underperform. Worse, despite 3,250 fewer staff, the ratio of costs to income for the whole bank rose to around 90%, from 77% in 2000.

Mr Ackermann's task as *de facto* chief executive is to prove that Deutsche Bank can match its chosen peer group in all departments. It is top of the class in some of the wholesale businesses, such as foreign exchange, securities lending and global custody. But in corporate investment banking, particularly in America, it seldom rises above seventh in any league table. Even American contenders, such as J.P. Morgan Chase, have found it hard to break into Wall Street's top half-dozen firms, the bulge bracket.

How do you penetrate an oligopoly? Deutsche Bank has built doggedly. Its purchase in 1999 of Bankers Trust, an American wholesale bank, has proved successful, but it is not enough. The purchase late last year of Scudder, an asset-management firm, from Zurich Financial Services, will give it more power to place issues of American securities. But Deutsche Bank's quickest entry into the bulge bracket would be to buy one of the big investment banks already in it. Morgan Stanley may be too expensive; Merrill Lynch may be within reach. Fashion has swung towards banks with big balance sheets that can offer loans as a lure for investment-banking business. In buying a bulge-bracket firm, Mr Ackermann would round off his Karl May adventure.

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Enron and stockmarket jitters

The good Lay

Jan 31st 2002 | NEW YORK
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More fallout

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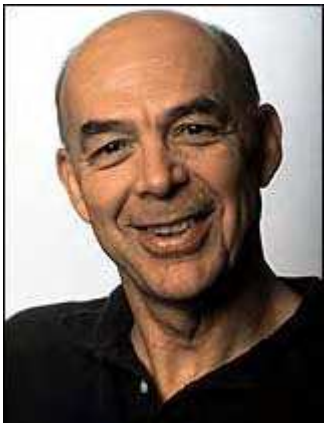

Cooper relishes the impossible

Get article background

HOUSTON'S real-life soap opera continues to provide as many twists and turns as the fictional tycoons from Dallas ever managed. After the suicide—or the "apparent" suicide, as the media like to put it—of a senior executive who had objected to Enron's questionable accounting, a tearful Linda Lay took to the airwaves in order to defend her husband, Kenneth, who was boss of Enron until last week.

The Lays sold hundreds of millions of dollars worth of Enron shares over the years. But the couple now, says Mrs Lay, is on the verge of bankruptcy. Mr Lay is an "honest, decent, moral human being who would do absolutely nothing wrong". After praying with him on January 28th, Jesse Jackson likened Mr Lay to Job: righteous and rich, Mr Lay was having his faithfulness tested by God. Meanwhile, Al Sharpton hired Johnnie Cochran, once O.J. Simpson's lawyer, to represent former Enron employees. This show will run.

Enron got a new chief executive, Stephen Cooper, a bankruptcy specialist and "forensic accountant". Andersen, Enron's former auditor, which was demonstrably lacking in forensic abilities, continues to suffer. Joseph Berardino, its boss, admits that the firm is now losing business because of its associations with Enron.

Andersen is not the only one of accountancy's big five to be involved in the Enron mess. PricewaterhouseCoopers audited some of the off-balance-sheet partnerships that Enron used for dumping bad debts and fiddling its accounts. It reportedly advised Veba, a German utility, not to proceed with a planned merger with Enron in 1999, because of concerns about its aggressive accounting policies. In neither case is there a suggestion that the auditor was doing anything wrong. But clearly some folk suspected Enron's accounting.

The Enron virus spreads still through Wall Street, beyond J.P. Morgan Chase and Citigroup, whose roles as lenders and advisers to the firm have come in for scrutiny. Nearly 100 executives at Merrill Lynch invested a combined $16m in LJM2, an Enron off-balance-sheet partnership. Remarkably, they seem to have respected the Chinese walls meant to exist between banking and equity research by not tipping off the firm's energy analysts about these partnerships. On January 30th Bank of America dismissed two employees involved in lending to Enron. Presumably, other banks have also sacked staff for similar reasons.

It was not long ago that company bosses were eager for their firms to be judged the next Enron. Now, a growing number of companies have seen their share price plummet, thanks to this comparison. This week shares of Anadarko, an oil firm, plunged after it admitted to misstating profits. Shares of Tyco, one of America's biggest conglomerates, which last week announced it would split itself into five, continued to fall as investors worried about issues of corporate governance at the company. They concluded that a break-up would be more likely to increase, rather than lessen, the opacity of Tyco's accounts. Dennis Koslowski, Tyco's boss, said he was ready to buy the company's shares, which looked cheap.

Meanwhile, General Electric (GE), the world's most highly valued firm, also suffered from stockmarket jitters. Investors worried that GE may be a conglomerate that, like Tyco, has used mergers, and the accounting creativity that can accompany them, to exaggerate natural growth. They also worry that the

giant might have used GE Capital, its finance arm, to smooth accounting profits.

On January 29th, PNC, a large bank, said that it had reduced its reported profits, after complaints by the Federal Reserve about how it had accounted for loans it had moved off its balance sheet. This prompted a statement that all is well at PNC's partner in this activity, AIG, an insurer and another much-admired firm with somewhat mystifying accounting. The shares of both PNC and AIG fell. It seems that Enron's fall has at last prompted the stockmarket to punish creative accounting rather than ignore it.

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About sponsorship

China's state shares

Selling the family scrap-iron

Jan 31st 2002 | BEIJING
From The Economist print edition

The government struggles to profit from share sales

CHINA'S stockmarket regulators have had a bad week. On January 26th, after weeks of discussions with officials and academics, they announced draft proposals for selling off the controlling stakes that the government holds in most listed companies on the mainland. The document was supposed to put an end to the stockmarket's long slump, caused in part by investors' anxiety about a possible flood of new shares. Instead, it has sown alarm. After a sharp fall in share prices, the regulators now admit that they will have to think again.

China badly needs to get this one right. At present, only a small proportion of the shares in state enterprises are owned by the public; most are held by various public bodies and account for three-fifths of total shares issued. After much ideological agonising, reformers now recognise the urgency of selling off these non-traded shares, to raise the money to build a proper pensions system in China.

A sale offers a second, more important benefit. As long as the government, or state-owned entities, control the majority of Chinese companies' shares and cannot trade them, state enterprises are not subject to market disciplines or shareholder scrutiny. China's 1,200-odd listed companies are often badly managed, corrupt and inefficient; the shareholding public is unable to exert effective supervision.

If mishandled, this essential reform could cripple the markets, stymie efforts to provide a social-security net, depress consumer confidence and, some Chinese academics say, trigger unrest among the country's 30m individual investors. The government's efforts so far inspire little confidence. A cautious attempt at reform in 1999 involved selling state-owned shares in just two listed companies, Jialing Motorcycle and Guizhou Tyre. The experiment flopped. The shares' issue price, though quite a bit lower than the price of companies' tradable shares, was still too high for investors. The underwriters ended up with one-fifth of Jialing's offer and one-quarter of Guizhou's. The Ministry of Finance, reluctant to allow sell-offs at the low prices demanded by the market, abandoned ambitions to slim down state control to 51% of companies' shares over three years.

Last June the government had another go, this time requiring that 10% of the value of new share issues be raised by selling state shares, rather than newly-created shares, with part of the proceeds going to the social-security fund. The chairman of the China Securities Regulatory Commission, Zhou Xiaochuan, confidently predicted that the sales would have only a limited impact on share prices. Still, the market fell by a third before the government called off the scheme last October.

The problem, again, was officials' obtuse reluctance to offer an attractive discount, behaving instead as if a rush of new shares was not going to depress the market. “The method was wholly wrong,” says Gao Huiqing, an economist at the State Information Centre. “Even though some departments said it was a market-oriented policy, it violated basic market principles.” To be fair, part of the stockmarket's slide last year had also to do with a squeeze on liquidity caused by a crackdown on widespread trading irregularities, including the use of bank loans to buy shares.

For the time being, the government will have to be the main provider to the social-security fund, through share sales. Over the next 25 years it will need to find more than $200 billion in order to pay for planned

pensions. Issuing more bonds would risk pushing debt to a dangerously high level. “They don't have anything else with which to finance such a big liability,” says Pu Yonghao, an economist at Nomura International. At current market prices, state shares would be worth more than $300 billion—though current prices are little indication of what investors might be prepared to pay, and no indication at all of what the shares might really be worth.

The proposals published by the regulatory commission this week were the most cautious so far. They suggested that only companies listed for at least ten years be allowed to sell off state shares. All shares of newly listed companies would be tradable, but with the state-owned portion held back from the market for up to three years. The price of the state-owned shares would be set by open bidding. Existing shareholders would be compensated with bonus shares or stock options.

No one is impressed. Some Chinese analysts are muttering darkly that the market is “on the verge of collapsing”. Others say that revised plans will be discussed, and possibly finalised, at a meeting of finance officials in Beijing later this month. On January 31st markets surged on the rumour that plans would be shelved for now.

Still, there is no sign of consensus. Recommendations from Chinese economists range from simply handing over the state-owned shares to the social-security fund, which could sell them as necessary or put pressure on management, to giving them away to shareholders. Mr Pu of Nomura suggests spreading out the sale of state shares over as long as 50 years. These ideas will not please the finance ministry, which wants quick—and large—returns.

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Italian insurance

Premium business

Jan 31st 2002 | ROME
From The Economist print edition

Power as much as policies in a three-way insurance tangle

EVEN straightforward mergers or acquisitions involving just two companies cheer investment bankers, law firms and accountants these days. Imagine their pleasure when negotiations are three-way affairs, involving legal stunts and the Machiavellian methods of Italian finance.

On January 3rd Fiat, a car maker that owns Toro, Italy's third-biggest insurance group, issued an ultimatum to Italy's fifth-biggest insurer, SAI. Within 30 days, said Fiat, SAI must find a buyer prepared to pay *euro*9.5 ($8.80) a share for a 22% interest in Fondiaria, Italy's sixth-biggest insurer, that is held by Montedison, a chemicals, energy and agro-industry conglomerate in the Fiat fold. A steep condition, given that Fondiaria's shares trade at around *euro*6.25. Still, if SAI does not oblige, it faces a massive penalty for not completing an agreed deal. Knowing that SAI will struggle to find a buyer, Toro offered Montedison slightly over the current market price for its shares in Fondiaria; Montedison accepted. A complicated plot, and no surprise that Mediobanca, a Milanese investment bank that for decades manipulated the main actors on Italy's business stage, is in its midst.

This latest show began last July, when Fiat launched its bid to take over Montedison. With almost one-third of Fondiaria's voting stock, Montedison was the insurer's biggest shareholder. In turn, Fondiaria held, and still holds directly, nearly 2% of Mediobanca, which itself owns 13% of Fondiaria's voting stock.

On the very day that Fiat went for Montedison, Mediobanca, which until not long before had been the conglomerate's biggest shareholder and still pulled its strings, orchestrated a deal designed to put Fondiaria beyond Fiat's reach. Montedison agreed to sell 29% of Fondiaria's voting stock at *euro*9.5 a share to SAI, an ally of Mediobanca that already owned about 3% of Fondiaria. Under this agreement, SAI acquired 7% immediately. Transfer and payment for the rest was subject to regulatory approval, without which SAI was committed to finding another buyer.

Mediobanca's scheme fell foul of Consob, Italy's stockmarket watchdog, which reckoned that the insurer and the investment bank were working in concert. Since their combined stake in Fondiaria's voting stock would exceed 30%, Consob said last August, they would have to make a full offer to all other shareholders. At the end of December, the insurance regulator blocked SAI's purchase of Fondiaria shares, clearing the way for Toro's move.

Consolidation would help the sector. Only two Italian insurers, Generali and Allianz RAS, match big competitors elsewhere in Europe for size. Both SAI and Fondiaria are relatively small and they are weak in life insurance, one of the more profitable business areas. Toro, whose ties with Banca di Roma give it access to the bank's distribution network, does better, with business split equally between life insurance and property-and-casualty insurance.

What next? SAI has appealed against Consob's decision and a hearing is due this month. Fiat wants a three-way merger. Toro has put forward written proposals for joining up with Fondiaria. But, with a deadline of February 3rd, SAI had still not, as *The Economist* went to press, come up with concrete proposals of its own. It may hope to win Fondiaria in the courtroom. With some voting rights suspended among the contenders, and with Montedison's call on January 29th for a shareholders' meeting at Fondiaria to renew its board, it is a messy business.

Italian finance is rich territory for conspiracy theorists. The real prize, they say, is not Fondiaria, but Mediobanca itself and its commanding 13.6% stake in Generali, which alone accounts for over half the bank's market capitalisation. Without Generali, Mediobanca would be a mere investment-banking boutique.

Fiat, a big shareholder in Mediobanca, has scores to settle with the bank. Toro has an 11% interest in Banca di Roma, which in turn is one of Mediobanca's two biggest shareholders. Analysts say that Fondiaria and SAI can muster around 7% in Mediobanca. Fiat and friends seem to be plotting to take charge at the bank; management is scheming its own survival.

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Stockmarket valuations

Great expectations

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Around the world, equities have beaten bonds for the past century. Where's the risk in that?

AS AMERICAN equity investors and their advisers will tell you, it is “stocks for the long run”: over time, equities perform better than bonds. Even had you put all your money in shares just before the stockmarket crashes of 1929 or 1973, you would in the end be far richer than the wallflowers who played it safe with bonds. That was the thrust of a best-selling book by a business-school professor at Wharton, Jeremy Siegel, first published in 1994. By the end of the decade, it was common wisdom that every dip in share prices was merely an opportunity to buy.

Others have taken the notion to wacky extremes. In 1999, another popular book, “Dow 36,000”, predicted that the Dow Jones industrial average would nearly quadruple in three or four years (it is now around 9,800, and thus about where it was three years ago). Though the book's author has since, ahem, revised his target date to, maybe, “the end of this decade”, he remains unrepentant about his core thesis: whether shares are cheap or dear at current prices, they are the safest way to guarantee long-term wealth. Books by others bid the target up still higher: “Dow 40,000”, for one, and “Dow 100,000”, a $25 volume now discounted at $7.50.

Some of America's affection for shares—more American households have their savings in equities than in any other country—is understandable. In stockmarkets, the victors write the history, and most academic analysis of equity performance has been based on stockmarkets in America, which happened to be the most successful large economy of the past century. Moreover, nearly all analysis has focused on the years after 1925, for which the best data is available. Far less attention has been lavished on other parts of the world, or on earlier periods in America.

Sponsored by ABN Amro, a new study* by two professors and a research director at the London Business School, Elroy Dimson, Paul Marsh and Michael Staunton, takes a more cosmopolitan view. Their book escapes the tyranny of American data; it looks at indices of total returns for 16 rich countries, using newly gathered data going back to 1900, a full quarter-century earlier than most other studies.

Have they put paid to the notion that shares beat bonds? No: actually, they confirm it, hence the book's title: “Triumph of the Optimists”. In every country in their study, the authors show that real (that is, inflation-adjusted) returns from equities beat bonds. Still, the devil, like the risk, is in the details.

The equity premium (also known as the equity-risk premium) is a measure of the average annual return over and above riskless debt, such as government bonds, that shareholders expect to receive as compensation for holding risky shares. This risk is no illusion: shareholders are always the last to be paid, after other creditors get their cut. The authors conclude that all the world's stockmarkets offer strong evidence that riskier assets, on average, return more to investors.

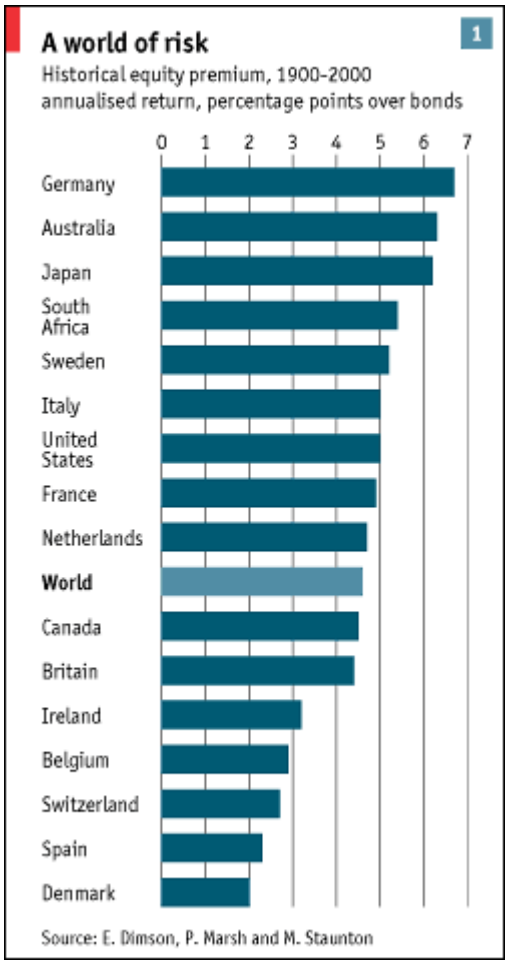
Mind the gap

Some accounts of the equity premium often go astray from here. Since equities return more, on average, over the 75 years of data previously studied, shares must not be so risky after all. In fact, so the argument goes, shares are no riskier than bonds. Clever investors who recognise this will push up share prices until the equity premium goes to zero. The Dow will be bid up to 36,000, 100,000 or whatever level ensures equity returns equal those of riskless debt.

These ideas are reinforced by a widely held belief: that in every single 20-year period of American stockmarket history, equities have outperformed bonds. One problem is that this is a bit of a statistical

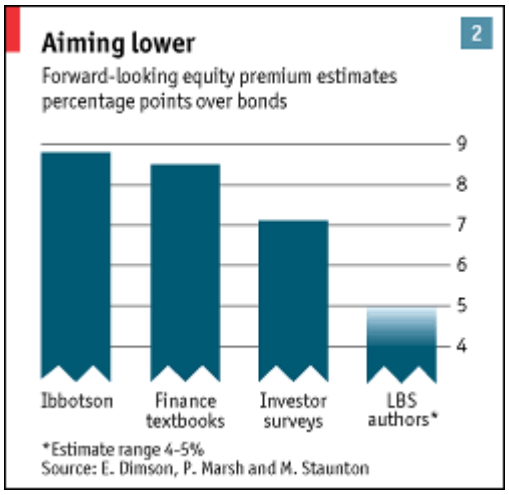
mirage. In the 75 years since 1926, it is possible to measure only three distinct 20-year periods and the rule is found to hold. Yet earlier, there were periods when shares lost out to bonds. Modern promoters of the 20-year rule are unburdened by knowledge of the past. Nor does the 20-year rule hold for other countries. Messrs Dimson, Marsh and Staunton found four stockmarkets—the Netherlands, Germany, Sweden, and Switzerland—where at times 40 years of market exposure were needed to ensure that shares outperformed bonds.

In addition, previous studies may have overestimated absolute equity returns, partly because they relied upon inadequate data. For instance, during the first world war, for which data is hard to find, returns were generally lower. Also, earlier studies look at the historical share-price performance of companies that survive today, rather than examine the performance of now-extinct shares that would have been in a past investor's portfolio.



Correcting for these factors, as well as using a full century of data, gives a wide range of equity-risk premiums, with Denmark at the bottom of the league and Germany at the top. Messrs Dimson, Marsh and Staunton estimate a global historical average equity premium, over bonds, of 4.6 percentage points (see chart). That is nearly half the widely received forward-looking estimate of 8.8 percentage points from Ibbotson Associates, a consulting firm, and the 8.5 percentage points taught in finance courses everywhere (chart 2).

Even this estimate may be too generous. Some stockmarkets, such as those of China, Russia and Poland, are not included in the study, since they were closed down under communist rule. That led to returns best described as “steeply negative”. If these markets were taken into account, the historical equity premium would be even lower.



Another way of measuring the equity premium—which is, after all, the extra return on equity that investors require—is to ask them. Surveys suggest that investors in America expect an annual extra return of 7.1 percentage points. Still, they appear capricious, raising their target after a period of strong stockmarket returns and lowering it during the lean years.

But all of these estimates are too high, the authors say. To get a truer picture, they take into account the decreased volatility of today's stockmarkets, as well as the effects of unanticipated profits in recent years. After adjusting for these factors, the authors argue that the best estimate of the equity risk premium worldwide in future is 4-5 percentage points.

The true level of the equity premium is not merely an academic debate. Pension funds, for instance, have to consider it. At present, their fixed liabilities—the money they owe to pensioners—are mostly offset by risky shares. Too much optimism about expected equity returns could have painful consequences. Recognising this, one British retailer, Boots, recently switched its entire portfolio into bonds.

Participants in pension schemes with defined contributions rather than defined benefits, such as America's 401(k) plans, face shock and disappointment if lower returns than expected leave them stranded at retirement. What is more, rich countries can expect a surge in the numbers of retired folk, starting in a decade's time, as the world's baby boomers start withdrawing assets for consumption. If the retired have all bet on shares, they will find that their long run is, it turns out, a crowded race.

Perhaps the biggest damage that comes when returns from equities are overestimated is that

investment, and hence growth, in the world economy gets crimped. Every business-school student learns to size up a new project by comparing its expected returns to expected stockmarket returns. If the equity premium is overstated, managers may be overlooking profitable investments, from new factories to drug research to investments in poor countries.

Over the past century, newspapers have given repeated warnings about shares' lofty prices. Most of the warnings, with hindsight, were misplaced. Yet financial markets have a way of killing off the easy bets. Each time a financial pattern emerges—that small companies' shares outperform those of large ones, that shares outperform in January, and so forth—investors exploit the pattern, thus undermining it. Might the same thing happen with the relatively recent discovery of the supposed 20-year rule, leaving investors to wait for even longer before their shares beat bonds?

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*"Triumph of the Optimists", by Elroy Dimson, Paul Marsh and Mike Staunton. Princeton University Press, 2002.

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Economics focus

Never the twain shall meet

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From The Economist print edition

Why do economists and environmental scientists have such a hard time communicating?

ACADEMIC disciplines are often separated by gulfs of mutual incomprehension, but the deepest and widest may be the one that separates most economists from most environmentalists. The ferocious row over “The Skeptical Environmentalist”, a new book by Bjorn Lomborg, a statistician with a taste for economic analysis, is a case in point. We discuss that fight in detail this week in our leader pages and in the Science and Technology section. What underlies rows like this, as well as the more insidious refusal even to engage with the other side, is not so much disagreements about facts as disagreement about how to think.

Almost all economists are intellectually committed to the idea that the things people want can be valued in dollars and cents. If this is true, and things such as clean air, stable sea levels, tropical forests and species diversity can be valued that way, then environmental issues submit—or so it is argued—quite readily to the disciplines of economic analysis. Trade-offs can be struck between competing ends, in principle at least, and one can begin to think about how the world's consumption of environmental goods can be optimised, as economists say, subject to the constraint that people cannot have everything they want.

Most environmentalists object to the very first step in the argument—the idea that environmental goods can be reduced, as they would put it, to a cash equivalent. In fact, most environmentalists not only disagree with this idea, they find it morally deplorable. So tempers on both sides start to be lost at the outset.

Ordinary voters are far more likely to agree with environmentalists on this than with economists. To them it seems absurd and wrong to suppose that a value can be put on, say, the survival of the Indian tiger. Yet the fact remains that choices must be made. Even if environmentalists ruled the world, difficult choices would have to be confronted—and, working backwards from those choices, made according to whatever criteria, it will always be possible to calculate the economic values that were implicitly attached to different environmental goods. Environmentalist rulers might prefer not to know what these implicit valuations were, but that would not alter the fact that trade-offs, measurable in dollar terms, had in fact been struck.

However, this does not prove that moving from values to policy, as economists prefer, will yield better results than working backwards, and deducing (if you care to) values from policy. Suppose that economists are very bad indeed at attaching values to environmental goods. Then it might be better to work the other way round: take a guess at good policy, and leave the economists to do their (pointless) bookkeeping later.

There is a lively debate in economics about valuing the environment, and some strands of the literature do favour, or at least sympathise with, this environmentalist perspective. For instance, a new paper by Philip Graves, a professor at the University of Colorado, suggests that economists systematically undervalue environmental goods, possibly by a lot*.

The standard approach to valuing public goods (including environmental goods) goes back to a classic paper by Paul Samuelson in 1954. It says that, in principle, governments should be guided in providing public goods by what people would be willing to spend on them if the goods could be bought in a market. One difficulty is discovering what people would be willing to spend. But that point is old hat. Mr Graves's idea is that even if you knew how much of their existing incomes people would spend on environmental goods, this would not tell you how much they would spend if they were actually given the choice—

because if people could buy environmental goods, they might work harder and earn more, and spend the extra income on them.

Mr Graves guesses that people might work 10% harder on average. (One component of this shift: at least some green activists and drop-outs would get higher-paying jobs, or any jobs, if they could spend their wages on environmental goods.) That number, on which everything depends, looks awfully high. It may seem more plausible in Colorado than it would across the Atlantic in, say, Essex—where, if people had an opportunity to trade less environmental protection for extra leisure and private goods, they would probably take it. Still, if Mr Graves were anywhere near right about this figure, the implied undervaluation of environmental goods by standard methods would be quite enormous.

Does this point the way to détente? Probably not. If Mr Graves is right about the theory and in the ball-park with his number, his analysis favours a very large expansion in efforts to improve the environment. Environmentalists would no doubt applaud that result. But Mr Graves is still, deplorably in their view, trying to attach monetary values to things he ought not. Mr Graves's analysis, and other green-friendly work by economists, is still about economic efficiency, about striking a better trade-off—and, in the end, about finding the point at which further spending on the environment would be too much. How many environmentalists can even imagine such a point?

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* “Valuing Public Goods”. The paper has not yet been published but can be read on Mr Graves's website.

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"The Skeptical Environmentalist"

The litany and the heretic

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Why has Bjorn Lomborg created such a stir among environmentalists?

Get article background

"I'M AFRAID there isn't much scientific controversy about Mr Lomborg. He occupies a very junior position in Denmark (an 'associate professor' does not exactly mean the same thing that it does in the United States), he has one possibly very flawed paper in an international journal on game theory, no publications on environmental issues, and yet manages to dismiss the science of dozens of the world's best scientists, including Nobel laureates, Japan and Crawford prize-winners and the like. As any sensible person would expect, his facts are usually fallacies and his analysis is largely non-existent."

Those contemptuous words from Stuart Pimm, a professor of conservation biology at Columbia University, are fairly representative of the response from many environmental scientists and activists to Bjorn Lomborg's recent book, "The Skeptical Environmentalist". In the weeks since the book's release, virtually every large environmental group has weighed in with a denunciation. Numerous heavyweights of science have penned damning articles and reviews in leading journals. Dr Pimm, for one, railed against Dr Lomborg in *Nature*, while *Scientific American* recently devoted 11 pages to attacks from scientists known for their environmental activism.

Dr Lomborg's critics protest too much. They are rattled not because, as they endlessly insist, Dr Lomborg lacks credentials as an environmental scientist and is of no account, but because his book is such a powerful and persuasive assault on the central tenets of the modern environmental movement.

Just the facts

Curious about the true state of the planet, the author—who makes no claims to expertise in environmental science, only to statistical expertise—has scrutinised reams of official data on everything from air pollution to energy availability to climate change. As an instinctive green and a former member of Greenpeace, he was surprised to find that the world's environment is not, in fact, getting ever worse. Rather, he shows, most environmental indicators are stable or improving.

One by one, he goes through the "litany", as he calls it, of four big environmental fears:

• Natural resources are running out.

• The population is ever growing, leaving less and less to eat.

• Species are becoming rapidly extinct, forests are vanishing and fish stocks are collapsing.

• Air and water are becoming ever more polluted.

In each case, he demonstrated that the doom and gloom is wildly exaggerated. Known reserves of fossil fuels and most metals have risen. Agricultural production per head has risen; the numbers facing starvation have declined. The threat of biodiversity loss is real but exaggerated, as is the problem of

tropical deforestation. And pollution diminishes as countries grow richer and tackle it energetically.

In other words, the planet is not in peril. There are problems, and they deserve attention, but nothing remotely so dire as most of the green movement keeps saying.

Nor is that all he shows. The book exposes—through hundreds of detailed, meticulously footnoted examples—a pattern of exaggeration and statistical manipulation, used by green groups to advance their pet causes, and obligingly echoed through the media. Bizarrely, one of Dr Lomborg's critics in *Scientific American* criticises as an affectation the book's insistence on documenting every statistic and every quotation with a reference to a published source. But the complaint is not so bizarre when one works through the references, because they so frequently expose careless reporting and environmentalists' abuse of scientific research.

The replies to Dr Lomborg in *Scientific American* and elsewhere score remarkably few points of substance*. His large factual claims about the current state of the world do not appear to be under challenge—which is unsurprising since they draw on official data. What is under challenge, chiefly, is his outrageous presumption in starting a much-needed debate.

Some argue that scientists who favour stronger policies to improve the environment must use the same tactics as any other political lobby—from steel companies fighting for tariffs on imports to farmers demanding more subsidies. The aim, after all, is to win public favour and government support. Whether such a view is consistent with the obligation science owes to the truth is debatable, at best. If scientists want their views to be accorded the respect due to science, then they must speak as scientists, not as lobbyists.

Dr Lomborg's work has its flaws. He has made some errors in his statistical analysis, as he acknowledges on his website. And there are broader issues, especially to do with the aggregation of data and the handling of uncertainty, where his book is open to challenge. For instance, his approach of examining data at a global level, while statistically sound, tends to mask local environmental trends. Global marine productivity has indeed risen, as he says—but this disguises collapses in particular species in particular places. Dr Lomborg argues that such losses, seen in a long-term perspective, do not matter much. Many would disagree, not least the fishermen in the areas affected.

Allen Hammond of the World Resources Institute (WRI) makes a related point. He accepts Dr Lomborg's optimistic assessment of the environment, but says it holds only for the developed world. The aggregate figures offered in the book mask worsening pollution in the mega-cities of the poor world. Dr Lomborg agrees that there are local and regional environmental pressures, and that these matter a lot, but it is fair to point out that the book has little to say about them, except to argue that rising incomes will help.

The book gives little credit to environmental policy as a cause of environmental improvement. That is a defensible position, in fact, but the book does not trouble to make the case. And another important question is somewhat skated over: the possibility that some environmental processes involve irreversible “triggers”, which, once pulled, lead to sudden and disastrous deterioration. Climate scientists believe, and Dr Lomborg does not deny, that too much warming could lead to irreversible bad outcomes such as the collapse of the mid-Atlantic “conveyor belt” (an ocean current that warms Europe). The science here is thin: nobody knows what level of greenhouse gases in the atmosphere would trigger such a calamity. But the risk argues for caution.

Dr Lomborg's assessment of the science in this area leads him to venture that warming is more likely to be at the low end of the range expected by leading experts than at the high end. He argues that the most-cited climate models misjudge factors such as the effects of clouds, aerosols and the solar cycle. That is plausible, and there is science to support it, but the conclusion is far from certain. Again, it is reasonable to argue that such uncertainty makes it better to err on the side of caution.

Sensible people will disagree about the course that policy should take. Dr Lomborg—a courteous fellow—seems willing to talk calmly to his opponents. For the most part, while claiming in some cases to be men of science, his opponents do not return the compliment.

Homo ecologicus

Despite its limitations, “The Skeptical Environmentalist” delivers a salutary warning to conventional thinking. Dr Lomborg reminds militant greens, and the media that hang on their every exaggerated word

about environmental calamity, that environmental policy should be judged against the same criteria as other kinds of policy. Is there a problem? How bad is it? What will it cost to fix? Is that the best way to spend those resources?

This is exactly what Tom Burke, a leading British environmentalist, denied in a debate he had with Dr Lomborg in *Prospect*, a British magazine. “What I find most egregious [in] your climate-change argument, however, is the proposition that the world faces a choice between spending money on mitigating climate change, and providing access to clean drinking water and sanitation in the developing world. We must and can do both. Such artificial choices may be possible in an academic ivory tower where ideas can be arranged to suit the prejudices of the occupant, but they are not available in the real world and it is dishonest to suggest that they are.”

On the contrary, Mr Burke. Only in an ivory tower could choices such as these be called “artificial”. Democratic politics is about nothing but choices of that sort. Green politics needs to learn that resources are not unlimited.

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* See the criticisms and Dr Lomborg's replies on his website, www.lomborg.org. Last year, before “The Skeptical Environmentalist” came out, we ran a signed article by Dr Lomborg summarising his views. See www.economist.com/science/lomborg/

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Avian evolution

A wild goose chase

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From The Economist print edition

Feathers are flying in the world of bird classification

NATURAL selection follows no plan, which makes human attempts to classify biodiversity inevitably messy. A study on geese just published in the *Proceedings of the National Academy of Sciences* by Robert Fleischer of the Smithsonian Institution in Washington, DC, and his colleagues, nicely illustrates this messiness. It also illuminates the sometimes arbitrary way that conservationists decide what is worth conserving, and what is not.

Taxonomists, the scientists charged with classifying the living world, have traditionally used anatomy as their principal tool. If it looks like a goose and waddles like a goose and hisses like a goose, then the chances are that it is a goose. And if it looks more like one species of goose than another, it is probably more closely related to the former than the latter. But not inevitably. Looks evolve in response to the environment. Unrelated species in the same environment may end up looking similar. Related species in different environments may end up looking different.

When an environment is crowded with existing species, the scope for novelty is limited by what is already there. New volcanic islands, though, offer new opportunities for whatever species get there first. And on the newly erupted island of Hawaii, it transpires, one of the early arrivals was a flock of geese.

The nene (pronounced neh-neh), Hawaii's native goose, is one of conservation's most famous success stories. The species was brought back from the brink (only 30 individuals left in the 1950s) to a point where, while it is still classified as endangered, it seems reasonably safe from the vicissitudes of fortune. Fossil skeletons found in lava tubes on the island, though, show that the nene was not originally alone. At least two other species of goose existed there until people arrived and, presumably, ate them. They would have made easy prey. Both were large. One was completely flightless. And the other had the aerial prowess of a barnyard chicken.

That makes perfect sense. There were no predators on Hawaii until people arrived. Flight is costly. So, why bother? But the anatomical modifications which show biologists that these extinct species were not the world's greatest aviators, also serve to obscure their origins.

Dr Fleischer and his team were able to look beyond anatomy by comparing the DNA sequences of some of the birds' genes. And, since they were able to extract useable samples of DNA from some fossils, they were able to do so for both the living and the defunct geese.

The goose family tree thus revealed held some surprises. That the three sorts of Hawaiian goose were close relatives was the least of them. That these three geese were related to Canada geese was also not that surprising, at least for the nene, which traditional classification had pointed in that direction. What was a surprise was that Canada geese themselves (which are currently divided into 11 subspecies) fall into two disparate groups, and that the Hawaiian geese, hitherto seen as “proper” species, are merely additional subspecies within one of these groups. (To add to the confusion, the barnacle goose, also seen hitherto as a proper species, is actually part of the other Canada-goose group.)

It seems, therefore, that all of Hawaii's geese, both extinct and living, are descended from Canada geese. Given the isolation of the islands, and the branching of the family tree, the chances are that all descend from a single off-course flock that arrived about 500,000 years ago.

Dr Fleischer's tree also suggests it may be time to abandon the Canada goose as a distinct species, and elevate its many subspecies one rung up the taxonomic ladder. The logical alternative is that the nene—that icon of successful conservation—is merely a subgroup of a species that farmers and park-keepers

around the northern hemisphere regard as a pest. And if that were the case, would people be as keen to preserve it as they are now?

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Diagnosing breast cancer

The chips are down

Jan 31st 2002
From The Economist print edition

A new study has shown that breast cancer is more than one disease

Patterns of life and death

IN MEDICINE, diagnosis precedes everything. Better diagnosis means, at the least, a better idea of how a disease will progress. Ideally, it also points to the best treatment. One of the much-touted hopes of the Human Genome Project, the international effort to identify the complete set of human genes, was that it would lead to better diagnosis. That hope is now, slowly, being converted into reality with the aid of "gene chips"—glass wafers that can monitor the activity of thousands of genes at a time, thus revealing the genetic signatures of particular diseases.

Gene chips (or microarrays, to give their proper name) have already been employed to distinguish between different sorts of leukaemia, lung cancer and childhood cancer with a precision previously impossible. The latest illness to come under their scrutiny is breast cancer. Stephen Friend of Rosetta Inpharmatics, a subsidiary of Merck based in Kirkland, Washington, and his colleagues have analysed a set of tissue samples from 98 women who had suffered dramatically different fates after their first bouts of the disease. The results, just published in *Nature*, show that those fates were predictable from a genetic analysis of the tumorous tissue.

A gene microarray consists, as its name suggests, of an array of tiny cells (the microarray used by Dr Friend has 25,000 of them). Each cell contains fragments of a particular gene. Molecules of genetic material, such as DNA (of which the genes themselves are made) and RNA (the messenger molecules that active genes send into a cell to tell it which proteins to make), have the handy property that, when two matching strands of the stuff are near each other, they will bind together. So, to find out which genes are active in a cell, its RNA is extracted, tagged with a fluorescent dye, and then washed over an array. Any strands that match will stick in the appropriate cell—producing a glint of light on the chip that can be read by a special scanner.

Having done this, Dr Friend fed the results into a computer algorithm designed to seek out those tumours that had the most similar genetic profiles, and cluster them together. This revealed that the 98 original cancers fell into two main groups that could be recognised on the basis of the activity of 70 genes. A woman who possessed a "poor" 70-gene signature would be 15 times more likely to suffer a recurrence within five years than a woman who had a "good" genetic signature. The proof of the 70-gene marker came when Dr Friend tested it against a fresh batch of 19 tumour samples, and tried to classify them according to whether the disease was likely to recur within five years or not. The algorithm made only two mistakes.

It seems, therefore, that what has hitherto been regarded as a single ailment is actually two. By the

same token, a malady hitherto treated as one ought, perhaps, to be treated as two. At the moment, women who have had breast tumours removed are routinely given follow-up treatment with radiation and drugs, to stop the growth of secondary tumours that might have escaped from the main one before surgery. If Dr Friend's estimates are accurate, between 70% and 90% of these patients would do just fine even without this therapy, which often produces nasty side-effects. And if other and larger trials succeed in duplicating his technique, it should be able to predict who those patients will be. Saving women from inappropriate treatment is almost as worthwhile as treating those who need it.

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The Richard Casement internship

Jan 31st 2002
From The Economist print edition

We invite applications for the 2002 Richard Casement internship. This is for a would-be journalist under 25 to spend three months of the summer on the newspaper, in London, writing about science and technology. Our aim is more to discover writing talent in a science student than scientific aptitude in a budding journalist. Applicants should write a letter introducing themselves, along with an original article of about 600 words which they think could appear in the Science and technology section. They should be prepared to come for an interview in London or New York, this March, at their own expense. Applications must reach us by February 22nd and should be e-mailed to casement@economist.com.

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About sponsorship

Robert Nozick

Not all words need be last words

Jan 31st 2002
From The Economist print edition

We look at the life—and the new book—of one of America's leading philosophers, who died on January 23rd, aged 63

WHEN he was a graduate student at Princeton in the early 1960s, Robert Nozick was known as the visiting professor's ordeal. However deeply the eminent guest had thought through the counter-arguments and rejoinders, young Mr Nozick could be relied on to spot a hole in the defences and work away at it until the structure of argument lay in ruins. This love of the chase stayed with him after he had become an academic celebrity in his own right. He relished pointing out flaws in his own arguments. In lectures, no question was too weird or off the point for him not to run with it to see where it led. Brilliance, restlessness and a distrust of authority marked all he touched in a distinguished professorial career, mainly at Harvard University, where he seldom taught the same course twice.

Invariances: The Structure of the Objective World
By Robert Nozick

Harvard University Press; 428 pages; $35 and £23.95

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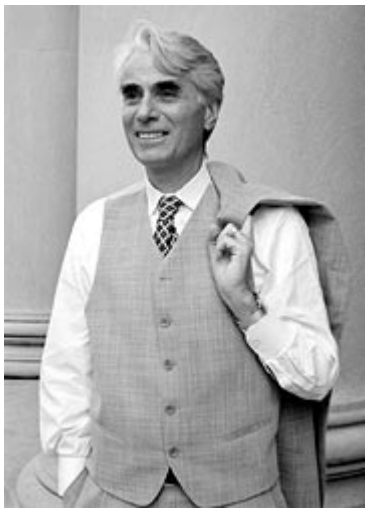

The book with which Mr Nozick burst on the public scene in 1974 was “Anarchy, State and Utopia”, a work of political thought that is acknowledged as a modern classic. It opens with the words, “Individuals have rights, and there are things no person or group may do to them (without violating their rights).” Given that, Mr Nozick immediately asked, what might states and their officials legitimately do? His answer was very little.

Against the pure anarchist, he allowed for a minimal state with a monopoly on legitimate punishment, provided it gave citizens adequate protection in return. But against anyone looking to the state to lessen material inequalities in the name of fairness he mounted a formidable challenge. No imposed pattern of property holding, he argued, is stable without continual interference in people's lives. The only just patterns of property distribution are those that derive by voluntary gift or trade from earlier just patterns. How can we be sure that the original pattern was just? Not because it was fair or unfair, but because it was justly acquired. In a neglected third part, Mr Nozick sketched a Utopian vision of like-minded groups freely forming communities in a minimal state that was “inspiring as well as right”.

No part of this impressive structure was (or is) without critics, particularly on the vexing issue of what makes original acquisitions just. Yet in the vigour of its arguments, the punch of its formulations (taxation is “on a par with forced labour”; “to each as they choose, from each as they are chosen”) and the breadth of its attack, the book had an impact far beyond the academic world. It is doubtful if many who bought it read it through. But its overall thrust—that a just distribution of property need not be fair—found welcoming ears.

It is hard to overestimate the part that “Anarchy, State and Utopia” played in restoring intellectual confidence among American conservatives and establishing a consensus in favour of free-market liberalism. Mr Nozick's book was the philosophical flank of a successful three-sided offensive against prevailing left-liberal ideas, the other two being Milton Friedman's economic work and the writings on politics and foreign affairs of the neo-conservative New York intellectuals grouped around the magazine *Commentary.*

In universities, teachers set Mr Nozick's book for undergraduates beside “A Theory of Justice” (1971) by John Rawls, a defence of principles underlying redistributive schemes that were the primary target of Mr

Nozick's attack. Mr Rawls's classic account of justice as fairness had almost at a stroke rescued political thought from the doldrums, making it serious and interesting again. Mr Nozick made it lively: there were now two intellectually respectable versions of liberalism—left and right.

Mr Nozick, for all that, was not happy to be pigeon-holed. A socialist when growing up in Brooklyn, he decided the case against capitalism did not work. (Marxist exploitation, he later wrote, was mainly exploitation of people's ignorance of economics.) Though he chided fellow conservatives for not taking individual rights seriously enough, he refused to be called a libertarian. He taught political courses—on the Russian revolution, for example—but with colleagues he preferred talking philosophy. A rare public stand came in 1997 when he joined Mr Rawls and four fellow philosophers in a brief before the Supreme Court arguing that the law should let sane, terminally ill patients end their lives.

After his first book, he turned to pure philosophy, joking that he did not want to write “Anarchy, State and Utopia II”. In 1981 came “Philosophical Explanations”, which contains a famous chapter asking a seemingly bootless question, “Why is there something rather than nothing?”, as well as chapters on personal identity and on free will. It is best remembered for an ingenious argument against scepticism, and for a dispositional account of knowledge as true belief that would reliably stick with the truth (or self-correct) as relevant circumstances changed. In “The Nature of Rationality” (1993), he returned to Newcomb's paradox, an enduring puzzle about decision-making, and he suggested that rational-choice theory could be made less narrow and artificial if it included what he called symbolic utility: things matter to us, he recognised, for the values or emotional commitments they express, not simply for their practical or material usefulness.

What does not change

Many such themes—and more—appear in “Invariances”, which Mr Nozick completed and published in October last year. Though written in his usual clear style, it is in many ways a daunting book. It is rich in detail and breathtaking in sweep. But it is not, as Mr Nozick himself warns us, systematic. Based on his John Locke lectures at Oxford University in 1997 and on other lectures elsewhere, its five parts explore relativism and truth, objectivity, necessity, consciousness and ethics.

No section is without close argument and fertile suggestion. A standard reply to relativism—the claim that truths depend on a point of view—is that this claim itself is either absolute (and so self-refuting) or relative (and therefore of no general import). This is too quick, Mr Nozick thinks, and he takes relativism more seriously: it does not undercut itself if we identify its domain of application clearly. Humans are enough alike for relativism about politics and society to be implausible. (In passing, he throws out the idea that social relativism gains favour among people who do not like the political truths that confront them—his example is resistance to accepting the success of capitalism.) In physics, by contrast, he enlists quantum theory to support the idea that truth is not (always) timeless. On a broader tack, he treats truth generally in a pragmatist spirit as whatever underlies the serviceability of our beliefs about the world—the X-factor in them that contributes to our attaining our goals.

This curt, dense summary of a single chapter should alert readers to what faces them. Mr Nozick goes on to unpack the idea of objectivity in terms of invariance under transformations of different kinds, to downgrade the notion of metaphysical necessity, and to suggest an evolutionary function for consciousness and for morals. The scientific, mathematical and philosophical learning needed to follow the many themes in full—the 100 pages of footnotes should perhaps be left for a second or third reading—is stupendous.

Philosophers will probably fasten on the hard arguments—on truth or necessity, say—and pass over the future-science guesswork about, for example, evolutionary cosmology. Non-philosophers (including many scientists) will, alas, be at sea. This reviewer, with “Invariances”, felt like a social chess player accompanying a grandmaster down the tables at a simultaneous display, struggling to follow each game while listening to him explain how chess would work in six dimensions. Mr Nozick was dying of cancer as “Invariances” went to press. Might his executors consider a new edition, edited and introduced by a sympathetic expositor?

That said, any reader of “Invariances” can gain from it a feel for the scope and tenor of Mr Nozick's thought. He writes in a recognisably American tradition of pragmatism and scientific naturalism. One of philosophy's main jobs, he says at the start, is to prepare topics for empirical science to go to work on. Yet the science he is drawn to is the speculative, intuition-defeating sort. He loved puzzles and free-ranging argument too much, you feel, ever to surrender entirely to the constraining authority of slowly

accumulated fact.

Philosophy begins in wonder, he writes at the end, with a silent nod to A.N. Whitehead. Indeed, Mr Nozick had a Romantic streak, both in his Utopian vision of society and in his conduct of philosophy. But this Byronic restlessness was the fault of his virtues: rare fluency and audacity—a fearless readiness to follow an idea where it led. Like any endeavour, philosophy needs explorers as well as mapmakers. As Mr Nozick liked to say, there is room for words that are not last words.

Invariances: The Structure of the Objective World.
By Robert Nozick.
Harvard University Press; 428 pages; $35 and £23.95

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About sponsorship

New fiction

Getting the horn

Jan 31st 2002
From The Economist print edition

LAWRENCE MILLER is an English academic living in New York. As the novel opens, he's concerned that, somehow, overnight, a bookmark in one of his dusty tomes has been moved. He's pretty sure that he didn't touch it himself. Or is he losing his marbles? He puts this to his therapist. “I asked her if it might have been a case of parapraxis—Freud's term for the lapses of memory, slips of the tongue, and other minor suppressions of consciousness that occur in everyday life.”

The Horned Man
By James Lasdun

Norton; 195 pages; $24.95.
Jonathan Cape; £10.99

Buy it at
Amazon.com
Amazon.co.uk

It soon becomes clear that a mysteriously moving bookmark is the least of Lawrence's worries. Before long he is convinced that there's a Bulgarian writer living under his desk. Sinister notes are exchanged. A glass eye is misplaced. Bodies start piling up. Is this parapraxis too, or should somebody call the cops?

Like most narrators of campus novels, Lawrence doesn't wear his academic credentials lightly. His donnish prattle has all the charm of a nine o'clock lecture in a draughty, badly-lit room. Visiting a lady-friend who likes him more than he likes her, he observes: “In deferring to her sense of what existed between us, I appeared to have put myself in a position of paradoxical power.” No wonder he has trouble getting dates.

But uncertainty as to where Lawrence is coming from and a growing sense that he might be a complete fruitcake are part of James Lasdun's design on the reader. “The Horned Man” is an intelligent, original and imaginative mystery story that rewards a little extra patience and close attention.

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Japanese cinema

Dynamic duo

Jan 31st 2002
From The Economist print edition

TOGETHER, they were the most powerful team Japanese cinema has ever known. Akira Kurosawa, the master film maker known as “the emperor” for his autocratic conduct on set, and his leading actor, Toshiro Mifune, nicknamed “the wolf” after his lupine features in youth, made 16 pictures together from 1948 to 1965, including such classics as “Seven Samurai” and “Throne of Blood”. Then, suddenly, after “Red Beard”, the link was broken and they never worked together again.

The Emperor and the Wolf: The Lives and Films of Akira Kurosawa and Toshiro Mifune
By Stuart Galbraith IV

Faber and Faber; 544 pages; $35 and £20

Buy it at
Amazon.com
Amazon.co.uk

Down the years, Mifune, who died in 1997, a year before Kurosawa, attributed this to conflicting schedules. It never rang true, and in this splendid dual biography, Stuart Galbraith explains why. “Red Beard”, a sweeping epic of early Japanese medicine, had been budgeted for a 50-day shoot that extended to more than a year. So Mifune, who was contractually locked in, was unable to undertake other roles for his own financially-strapped production company. For this, he never fully forgave Kurosawa.

Much has been written about Kurosawa before (his own life story, published in English as “Something Like an Autobiography”, is selective, and its Japanese title, “An Oily Toad”, however relevant within the text, understandably put many readers off). But this is the first book in English to deal at length with Mifune. Mr Galbraith fills the gaps. Where he really scores is in illuminating the two men's lives, and the lives of many of their close associates, as well as their work. Kurosawa's mental breakdown on the set of “Tora! Tora! Tora!”, Hollywood's first big-budget Pearl Harbour picture, from which he was fired in 1969, is related in previously unrecorded detail, as is the corruption within his own organisation. Kurosawa's 1971 suicide attempt, a consequence partly of this experience and partly of international indifference to his next film, “Dodes'ka-Den” (1970), is also well described.

Mr Galbraith's account of Kurosawa's production methods—closeting himself and fellow scribes in a Japanese inn at the writing stage, billeting his cast together during the shoot and making them address each other by their characters' names—helps to explain why his best films achieve such a realistic, lived-in quality.

But Kurosawa was no stick-in-the-mud. When a production company proposed to slash his adaptation of Dostoevsky's “The Idiot” (1951) from 265 to 166 minutes, he asked for it to be cut lengthwise, so that it would then truly reflect its title. During wartime, he proposed to his leading lady, Yoko Yaguchi, with tremendous deadpan style. “It looks”, he said, “as if we are going to lose the war, and if it comes to the point of the Honourable Death of the One Hundred Million [mass suicide], we all have to die anyway. It's probably not a bad idea to find out what married life is like before that happens.” She laughed, accepted, and stood by him until her death, during the production of one of his greatest films, “Ran” (1985).

Mifune's life is murkier. Little is known of his early wartime experience training kamikaze pilots, more of his later divorce and diplomatic faux pas in accompanying his mistress to a function attended by both the (real) Japanese emperor and America's President Ford. A heavy drinker, Mifune never made an international mark. After the break with Kurosawa, his linguistic limitations crippled his performances in such Hollywood movies as “Grand Prix” and “1941”. Towards the end of his career he was reduced, in increasingly unworthy movies, to innumerable impersonations of Japan's wartime Admiral Yamamoto.

In his last years Kurosawa made chamber pieces such as “Rhapsody in August” and “Madadayo”, quite different from the dynamically-edited films of his prime. Many found them embarrassing, but the author insists persuasively that they warrant another look. Film buffs in London currently have the opportunity

to do just that, as the National Film Theatre kicks off its 50th anniversary year with a retrospective of Kurosawa's work, which runs until February 28th.

The Emperor and the Wolf: The Lives and Films of Akira Kurosawa and Toshiro Mifune.
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Literary biography

One of them

Jan 31st 2002
From The Economist print edition

Sinclair Lewis: Rebel from Main Street
By Richard Lingeman

Random House; 656 pages; $35

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"IN THE year 1921," wrote Malcolm Cowley, a poet, critic and chronicler of America's so-called lost generation, "if you visited the parlour of almost any boarding house, you would see a copy of 'Main Street' standing between the Bible and 'Ben Hur'." It is a nice emblem of the paradoxical success of Sinclair Lewis. The five coruscating novels Lewis wrote in the 1920s gave enduring form to some of America's vices: the conformity of "Main Street", the materialism of "Babbitt", the hucksterism of "Elmer Gantry". Yet the public he satirised bought his books in vast numbers—"Main Street" was the bestselling novel between 1900 and 1925. In 1930 his popular success was crowned with the Nobel prize for literature. In retrospect, however, Lewis's reputation seems to have been, for a while anyway, as overvalued as the stockmarket whose crash it barely survived. The last 20 years of his life—he died in 1951—saw a steady decline of his powers. By the early 1960s his reputation had hit rock-bottom.

Lewis's place in literary history is hard to fix because he was born about half a generation late. Spiritually, he was a contemporary of George Bernard Shaw and H.G. Wells, and he carried their humanistic critical spirit to an America only recently grown-up enough to accept it. But while Lewis stayed at home, cashing cheques from the *Saturday Evening Post* and the Hollywood studios, a new set of literary pioneers had taken themselves off to Europe to write for what he defensively called "dinky little magazines of Finer Things".

Richard Lingeman's new biography does not attempt to overturn the long-accepted literary verdict on Lewis, or to counter the widespread acknowledgment that his work after the 1920s is barely known outside university literature departments, and that even "Main Street" is now more talked of than read. Rather, Mr Lingeman, an editor at the *Nation*, tries to win a sympathetic hearing for Lewis by shifting the focus of the argument from literature to politics. He shows that, if Lewis was, artistically speaking, behind the times and rather undistinguished, his strongly-held political and social principles remained stable and sensible. Mr Lingeman does a good job of emphasising Lewis's courage, independence of mind and liberal sanity—his adherence to what he described as "the clear radical line. Awareness of the tawdriness, silliness, immaturity and ruthlessness of this civilisation."

Perhaps more than anything else, what separated Lewis from other writers from the mid-west, such as Eliot and Hemingway, was his refusal to abandon its people for any ideology or aesthetic. He criticised the folk of middle America because he was one of them himself. Mr Lingeman exaggerates when he says that Babbitt "recovers his soul", but certainly Lewis's scorn is directed not so much at Babbitt himself as at the social and economic system that deforms him. The high points of Lewis's later work, too, come when he confronts an immediate social evil: racism in "Kingsblood Royal", or fascism in "It Can't Happen Here".

Lewis's life makes for bitterly sad reading, and Mr Lingeman omits nothing: alcoholism and divorce, disfigurement from skin ailments, the death of his son in the second world war, the endless peregrinations, driven by a consuming and pitiful loneliness. But the image we take away is the more heroic one that a friend recorded, as she watched Lewis taking notes at a dockyard. "He knew he intended to be a great American writer, depicting the life of Americans of his day and age. He worked towards it always."

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About sponsorship

Art exhibitions

World views

Jan 31st 2002
From The Economist print edition

Art-lovers have much to enjoy now and in the coming season

"IF YOU want to know all about **Andy Warhol**, just look at the surface. There's nothing behind it." Visitors flocking to Tate Modern's blockbuster this month can make up their own minds about the artist's self-assessment. Curated by Heiner Bastian, who built up a major Warhol collection in Berlin, this is the first show to survey his entire career, from window-dresser to Pop icon. *(Tate Modern, London, February 1st-April 1st; Museum of Contemporary Art, Los Angeles, May 25th-August 18th.)* Meanwhile, an exhibition in Prague claims Warhol as an honourary Czech: though born in Pittsburgh the artist was of Slovak descent. *(Veletrzni Palace, Prague, until March 17th.)*

The first exhibition of **Georges Braque's** work in Madrid—the city that prides itself on being home to Picasso's "Guernica"—provides an excellent opportunity both to survey Braque's art and to compare his style of Cubism with Picasso's, whose paintings hang at the nearby Reina Sofia. *(Thyssen-Bornemisza Museum, Madrid, February 5th-May 19th.)* Also in Madrid, the **ARCO Art Fair** allows visitors to window-shop through 250 galleries of mainly Spanish, Latin-American and European art, and then to sample a programme of cutting-edge contemporary shows. Of the top international art fairs, this is perhaps the most fun for the general public. *(Parque Ferial Juan Carlos I and various venues, Madrid, February 14th-19th.)*

Conceived before September 11th, to bring the destruction of the Bamiyan Buddhas to world attention, an exhibition at the Musée Guimet in Paris highlights the artistic heritage of **Afghanistan**, where culture and religion have sometimes clashed dramatically. Over 200 archaeological specimens illustrate Afghan history, beginning in the sixth century BC and ranging through the country's conquest by Alexander the Great, the arrival of Buddhist culture from India and China, and the coming of Islam. *(Musée Guimet, Paris, March 1st-May 27th.)*

The Medici, Michelangelo and the Art of Late-Renaissance Florence focuses on patronage and Florence's emergence as an arts capital in the 16th century. While much of the art is on permanent display, it has seldom been made so accessible. *(Palazzo Strozzi, Florence, June 30th-September 29th; Art Institute of Chicago, November 9th-February 2nd 2003.)*

In Los Angeles, an original exhibition takes us back to the café culture of the **Central European Avant-Gardes** in the first decades of the 20th century. Freud, Mahler, Mies van der Rohe, Kandinsky—the influence of these cosmopolitan figures is felt to this day. *(Los Angeles County Museum of Art, March 10th-June 2nd.)*

Matisse / Picasso, opening at London's Tate Modern and travelling to Paris and New York, charts what may be the last unexplored aspect of these two superstars of 20th-century art: their influence on one another's work. *(Tate Modern, London, May 11th-August 18th; Grand Palais, Paris, September 24th-January 6th 2003; Museum of Modern Art, New York, February 12th–May 20th 2003.)*

Painting on the Move is a one-off exhibition spread between Basel's top three museums. The show surveys the evolution of painting over the 20th century, and includes works from world-class private and public collections. *(Kunstmuseum Basel, Museum für Gegenwartskunst and Kunsthalle Basel, May 25th-August 8th.)* Should you wish to hang such paintings on your own walls, dealers at the elite Basel Art Fair (June 12th-17th) will be happy to help you acquire some. While you're there, don't miss **Monet up to Digital Impressionism**, on display in a stunning museum built around the private collection of a prominent art dealer. *(Fondation Beyeler, Basel, March 28th-August 4th.)*

Billed as a pan-African festival of the arts, the **Dakar Biennale** brings together painting, sculpture, film,

photography, craft and design. The Biennale takes over Senegal's capital and reclaims Gorée Island—a port from which slave traders once set sail for America—for art. It is a splendid opportunity to experience Dakar's vibrant cultural life. *(Various venues, Dakar, May 10th-June 10th.)*

The **Sydney Biennale** is the place to see new Australian art, and to consider the international art scene from the vantage point of the Pacific rim. This year's event, entitled “The World May Be Fantastic”, explores the ways in which contemporary artists create fictions to challenge received interpretations of the world. *(Art Gallery of New South Wales and various venues, Sydney, May 15th-July 14th.)*

Described by a former director as a “cross between an experimental space and an arts bazaar”, **Documenta 11** is essential viewing for anyone with an interest in contemporary art. Staged every five years, the show began in the post-war era, when a local professor turned the town of Kassel into a modern art centre in an attempt to fill Germany's cultural void. This year's director is Okwui Enwezor, a New York-based Nigerian curator known for his cross-cultural approach to art. *(Kunsthalle Fridericianum Neue Galerie and various venues, Kassel, June 8th-September 15th.)*

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Stanley Marcus

Jan 31st 2002
From The Economist print edition

Stanley Marcus, purveyor of extravagance, died on January 22nd, aged 96

AP

THERE comes a time in the life of the average billionaire when money ceases to be important. Suddenly it no longer seems to make the world go round; it has become quite boring. Stanley Marcus was sympathetic to the problem and sought to rekindle interest in possessions among those who wanted for nothing. “The people who come here actually need very little,” he said with the air of a kindly doctor dealing with a particularly difficult patient. What Mr Marcus set out to do at his shop Neiman Marcus was to turn the sufferer into a “wanter”.

Sometimes there was a quick success, especially if the patient were male, and billionaires usually are. “I've never found a man who *needs* a necktie,” said Mr Marcus. “But he may be fascinated with the colour, or the design, and he *wants* it.” But few cases were that simple. What about private aircraft? Got one, got several. But Mr Marcus was offering his and her matching aircraft. They would be the talk of the billionaire set. His wife would be charmed and especially attentive. They could keep boredom at bay for a week.

His and her aircraft, introduced in 1960, were followed by his and her miniature submarines, hot-air balloons and matching camels. Mr Marcus acquired two Egyptian mummies, established that they were male and female, and they too were resurrected into modern commerce. He sold Chinese junks and solid gold needles whose eyes no rich man could enter. His barbecues were silver plated and came with a live bull. His bathrobes were made of ermine. He is said to have discovered the shahtoosh, a sublimely soft scarf made in its original form from the neck hairs of Himalayan goats, and which in less exotic material has since become widely popular in high street shops. He never let up in his mission to save the very rich from the wasting disease of boredom.

The challenge of Dallas

The first Neiman Marcus shop was in Dallas, Texas. Cowboys and Indians were among the shop's first customers. From these rough beginnings Mr Marcus sought to make the firm an American symbol of luxury living.

His father, uncle and aunt, of German-Jewish stock, had started the shop. Young Stanley went to Harvard and on his return at the age of 21 became bookkeeper, salesman and much else besides. In his autobiography “Minding the Store” Mr Marcus gives the impression that he was not all that keen to settle down in a hick town after having been given a glimpse of a wider world of books and ideas at Harvard. But having decided to be the dutiful eldest son he set about transforming the family business into something beyond the confines of 1920s Dallas.

He started with the considerable asset that Texas, a state of oil and cattle, was wealthy, and growing wealthier by the day. The scruffy girl in gingham could be the daughter of a suddenly wealthy oilman. Today she was buying another cotton dress. Tomorrow she would want fashion. In those days Mr Marcus's challenge was not to alleviate the boredom of the rich, but to keep up with the demands of Texans newly flush with money.

His weekly fashion shows were among the first in the United States. Eventually he introduced to Texas the great names of European fashion, Chanel, Courrèges, Balenciaga. The bookish Mr Marcus became an attentive pupil of the masters, particularly Balenciaga, the Spaniard who was himself the mentor of many

famous designers. “He will enhance your beauty,” Mr Marcus assured the matrons of Texas, “not dress you in ugly things, like some newer designers.”

At the same time as promoting high fashion Neiman Marcus expanded from a speciality shop into an all-providing department store. When in 1969 the Marcus family sold a controlling interest in the company to a conglomerate, Carter Hawley Hale, sales were more than $62m a year (equivalent to $300m today) and there were Neiman Marcus stores in cities across the United States. Under the deal Mr Marcus ran the business until his retirement in 1975, and continued to be involved in it into his 90s.

In later years Stanley Marcus became a much-interviewed guru of retail selling. It was almost like being back in Harvard, but now he was a professor, dispensing erudition, occasionally raising a chuckle from an attentive audience. “I have the simplest taste: I am always satisfied with the best.”

So where would you find the best, professor? Not, it seems, these days in department stores.

> Department stores have become cumbersome and dull. They have lost their sense of excitement, of adventure. If you blindfolded a woman and dropped her from a plane into a shopping centre in America she wouldn't know whether she was in Indianapolis or Minneapolis or wherever. She would see the same big stores, the same merchandise in the windows. A new fashion in Italy is faxed over from Milan to New York or Miami and it is knocked up and appears everywhere and becomes stale before it is even able to walk. Department stores are waiting to be re-invented. Starting out again, I'd learn from the boutiques, the small speciality shops that offer individuality.

It suddenly sounded as though Stanley Marcus was back in the 1920s, preparing to take on the world from Dallas.

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Overview

Jan 31st 2002
From The Economist print edition

Saying that **America's** prospects for economic recovery have improved, the Fed left interest rates unchanged at 1.75%, in its first policy meeting this year. Last year, the Fed lowered rates by a total of 4.75 percentage points in 11 separate cuts.

America's economy seemed to confirm the Fed's optimism, as output grew during the fourth quarter against almost all expectations. GDP grew by a 0.2% annual rate in the three months to December, thanks mostly to increased government spending and zero interest-rate car-financing programmes. Though America's economy has been officially in recession since March, the fourth quarter economic growth figures defy the popular definition of a recession - two consecutive quarters of slumping GDP - though they may yet be revised downward.

Consumer sentiment was also rosy. The Conference Board's consumer confidence index rose again, from 94.6 in December to 97.3 in January, surpassing analysts' expectations. Consumer spending rose by an annualised 5.4% in the fourth quarter, driven by a burst in car sales; spending on durable goods in the fourth quarter surged by 38.4%, the biggest rise since 1986.

The Dow Jones index fell by 2.5% on January 29th, amid new worries over several large companies' accounting procedures.

Germany's Ifo business climate index inched above analysts' forecasts to 86.3 in January, up from 85.8 in December, in its third straight rise. Producer prices are falling in several **euro area** countries; in the year to December, they fell by 1.6% in **France**, by 1.3% in **Italy**, and by 0.8% in **Sweden**. Wages in the euro area rose by 2.9% in the year to September, a slightly less robust pay rise than the 3.0% increase in the year to June. The euro area's M3 measure of money supply grew by 8.0%, slightly less than expected, in the year to December.

Britain's GDP grew by 1.9% in the year to December, slowing from 2.2% in the year to September, as industrial production slumped sharply.

Yet again, **Japan's** economic troubles worsened. Industrial output fell by 14.9% in the year to December. The unemployment rate rose to 5.6% in December from 5.5% in November. Consumer price deflation deepened to 1.2%, worsening from the 1.0% deflation in November, and the Nikkei 225 share index fell back below 10,000.

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Output, demand and jobs

Jan 31st 2002
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	latest	latest	latest	year ago
Australia	+ 4.6	+ 2.5 Q3	+ 2.1	+ 3.2	+ 0.4 Q3	+ 5.8 Q3	6.7 Dec	6.3
Austria	– 0.3	+ 0.9 Q3	+ 1.1	+ 1.0	– 1.3 Oct	– 4.8 Sep	4.0 Nov	3.6
Belgium	+ 0.1	+ 0.6 Q3	+ 1.2	+ 1.0	– 9.3 Nov*	– 2.5 Oct	10.8 Dec*	10.6
Britain	+ 1.0	+ 1.9 Q4	+ 2.2	+ 1.8	– 4.8 Nov	+ 5.7 Dec	5.1 Nov†	5.3
Canada	– 0.8	+ 0.8 Q3	+ 1.4	+ 1.2	– 6.0 Oct**	+ 2.1 Oct	8.0 Dec	6.8
Denmark	+ 3.5	+ 1.4 Q3	+ 1.1	+ 1.3	+ 0.8 Nov	+ 0.9 Oct	5.0 Nov	5.5
France	+ 1.9	+ 2.0 Q3	+ 2.0	+ 1.3	– 0.9 Nov	– 0.8 Nov	9.0 Dec	9.1
Germany	– 0.6	+ 0.3 Q3	+ 0.7	+ 0.6	– 4.5 Nov	– 0.4 Nov	9.5 Dec††	9.3
Italy	+ 0.6	+ 1.9 Q3	+ 1.8	+ 1.0	– 5.8 Nov	– 0.3 Oct	9.3 Oct	10.0
Japan	– 2.2	– 0.5 Q3	– 0.4	– 1.2	–14.9 Dec	– 1.9 Nov	5.6 Dec	4.9
Netherlands	– 1.4	+ 0.4 Q3	+ 0.9	+ 1.0	– 5.3 Nov	+ 3.2 Oct	1.9 Dec§	2.6
Spain	+ 1.1	+ 2.8 Q3	+ 2.6	+ 1.8	– 4.7 Nov	na	13.0 Nov	13.6
Sweden	+ 0.2	+ 0.4 Q3	+ 1.3	+ 1.4	– 5.1 Nov	+ 2.6 Nov	3.6 Dec*	3.7
Switzerland	+ 0.1	+ 0.8 Q3	+ 1.5	+ 0.9	+ 1.9 Q3*	+ 4.3 Nov	2.4 Dec*	1.9
United States	+ 0.2	+ 0.1 Q4	+ 1.1	+ 0.7	– 5.8 Dec	+ 5.4 Nov	5.8 Dec	4.0
Euro area	+ 0.4	+ 1.4 Q3	+ 1.5	+ 1.0	– 4.3 Nov	– 0.5 Oct	8.5 Nov	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 5.0	nil Q3	na	na	– 3.1 Dec	+ 5.0 Oct	8.1 Dec*	8.3
Greece	na	+ 4.4 Q3	na	na	+ 2.0 Oct*	+ 4.1 Oct	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.6 Nov	1.2
Ireland	na	+ 9.2 Q2	na	na	– 8.0 Nov	+ 3.5 Nov	4.1 Dec	3.6
Luxembourg	na	+ 8.52000	na	na	+ 7.8 Sep	+10.0 Oct	2.7 Nov	2.6
New Zealand	+ 2.8	+ 2.1 Q3	na	na	+ 2.6 Q3*	+ 6.3 Q3	5.2 Q3	5.8
Norway	+ 3.8	+ 1.9 Q3	na	na	– 2.5 Nov	+ 2.2 Dec	3.6 Q3	3.5
Portugal	+ 1.6	+ 2.5 Q2	na	na	+ 2.9 Nov	+ 4.9 Nov	4.0 Q3	4.0

*Not seasonally adjusted. †Sep-Nov; claimant count rate 3.2% in Dec. §Oct-Dec. **New series. ††EU harmonised rate 8.0% in Dec.

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Prices and wages

Jan 31st 2002
From The Economist print edition

% change at annual rate

	Consumer prices* latest		Consumer prices* year ago	The Economist poll consumer prices forecast 2001	The Economist poll consumer prices forecast 2002	Producer prices* latest		Producer prices* year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 3.1	Q4	+ 5.8	+ 4.2	+ 2.4	– 0.7	Q4	+ 8.4	+ 4.0	Q3	+ 6.5
Austria	+ 1.9	Dec	+ 2.6	+ 2.5	+ 1.4	– 1.1	Dec	+ 4.4	+ 2.7	Nov	+ 2.2
Belgium	+ 2.2	Dec	+ 2.5	+ 2.5	+ 1.5	– 3.6	Nov	+10.2	+ 3.1	Q4	+ 1.6
Britain	+ 0.7	Dec	+ 2.9	+ 1.9	+ 1.9	– 1.2	Dec	+ 2.3	+ 4.2	Nov	+ 4.2
Canada	+ 0.7	Dec	+ 3.2	+ 2.6	+ 1.5	– 1.9	Nov	+ 5.3	+ 2.4	Oct	+ 2.4
Denmark	+ 2.2	Dec	+ 2.4	+ 2.3	+ 1.9	+ 0.4	Dec	+ 3.9	+ 4.3	Q3	+ 3.8
France	+ 1.4	Dec	+ 1.6	+ 1.7	+ 1.1	– 1.6	Dec	+ 4.7	+ 4.1	Q3	+ 5.3
Germany	+ 1.7	Dec	+ 2.2	+ 2.4	+ 1.1	– 1.5	Dec	+ 5.1	+ 1.9	Nov	+ 1.8
Italy	+ 2.4	Dec	+ 2.7	+ 2.7	+ 1.6	– 1.3	Dec	+ 6.2	+ 2.8	Dec*	+ 1.8
Japan	– 1.2	Dec	– 0.4	– 0.7	– 1.0	– 0.8	Dec	+ 1.1	– 0.5	Dec*	nil
Netherlands	+ 4.4	Dec	+ 2.9	+ 4.8	+ 2.2	– 2.3	Nov	+ 9.0	+ 4.6	Nov	+ 3.3
Spain	+ 2.7	Dec	+ 4.0	+ 3.6	+ 2.2	– 0.8	Dec	+ 5.0	+ 3.6	Q3†	na
Sweden	+ 2.9	Dec	+ 1.4	+ 2.5	+ 1.9	– 0.8	Dec	+ 3.7	+ 2.5	Oct*	+ 3.0
Switzerland	+ 0.3	Dec	+ 1.5	+ 1.0	+ 0.6	– 1.9	Dec	+ 2.2	+ 1.3	2000	+ 0.3
United States	+ 1.6	Dec	+ 3.4	+ 2.9	+ 1.5	– 1.8	Dec	+ 3.6	+ 4.1	Dec	+ 4.4
Euro area	+ 2.1	Dec	+ 2.6	+ 2.6	+ 1.4	– 1.3	Nov	+ 6.4	+ 2.9	Q3	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.6	Dec	+ 3.5	na	na	– 2.7	Dec	+ 5.9	+ 4.5	Q3*	+ 4.9
Greece	+ 3.0	Dec	+ 3.9	na	na	+ 0.2	Nov	+ 9.0	na		na
Iceland	+ 9.4	Jan	+ 3.5	na	na	+11.4	Jan	+ 4.4	+ 9.6	Dec	+ 7.6
Ireland	+ 4.2	Dec	+ 5.9	na	na	nil	Dec	+ 4.5	+ 8.7	Q3*	+ 7.4
Luxembourg	+ 1.7	Dec	+ 3.5	na	na	– 1.1	Nov	+ 5.0	+ 3.4	Aug*	+ 7.0
New Zealand	+ 1.7	Q4	+ 4.0	na	na	+ 6.2	Q3	+ 8.4	+ 2.0	Q3	+ 1.5
Norway	+ 2.1	Dec	+ 3.0	na	na	–14.1	Dec	+ 9.0	+ 4.6	Q3*	+ 4.2
Portugal	+ 3.7	Dec	+ 3.9	na	na	– 9.4	Dec	+13.5	+ 2.4	Apr*	na

*Not seasonally adjusted. †New series.

Text refers only to the first 16 countries listed

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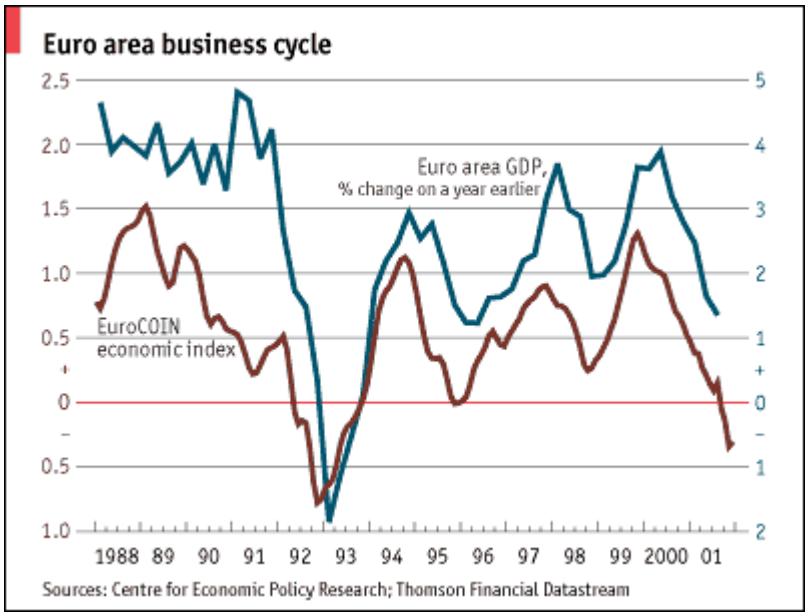
Euro area business cycle

Jan 31st 2002
From The Economist print edition

The euro area's economy began a rebound in December, according to the EuroCOIN index, a new current-conditions indicator compiled from around 1,000 economic and financial market factors. With a reading of -0.308, the index suggests continued economic contraction, though the pace of decline has slowed since November, which the index's creators reckon was the trough of the current business cycle.



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Money and interest rates

Jan 31st 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jan 30th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+21.8	+14.9	Dec	4.29	5.82	4.71	5.92	5.35	6.80
Britain	+ 8.3	+ 6.7	Dec	3.97	5.81	4.67	4.92	4.73	5.99
Canada	+15.3	+ 4.9	Dec	1.97	5.13	3.25	5.39	5.40	6.91
Denmark	+ 6.6	+ 6.5	Dec	3.65	5.40	4.28	5.09	5.09	7.06
Japan	+13.7	+ 3.4	Dec	0.03	0.41	0.08	1.48	1.43	1.56
Sweden	+ 7.1	+ 6.2	Nov	3.82	4.01	4.67	5.27	4.79	5.42
Switzerland	+ 6.3	+ 4.7	Dec	1.69	3.42	2.70	3.48	3.42	4.51
United States	+ 8.2	+13.5	Dec	1.77	5.40	2.99	4.98	5.15	6.78
Euro area†	+ 5.0	+ 8.0	Dec	3.36	4.65	3.84	4.86	4.73	5.51

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.43%, Japan No.236 1.49%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jan 31st 2002
From The Economist print edition

1995=100

	Jan 22nd	Jan 29th*	% change on one month	% change on one year
Dollar index				
All items	67.2	67.1	+ 2.8	– 7.7
Food	68.6	68.3	+ 1.5	– 3.1
Industrials				
All	65.4	65.5	+ 4.5	–13.5
Nfa†	63.6	64.4	+ 8.7	– 4.9
Metals	66.8	66.5	+ 1.3	–19.5
Sterling index				
All items	74.3	75.0	+ 6.0	– 4.5
Euro index				
All items	100.2	102.4	+ 6.2	– 1.0
Yen index				
All items	96.0	95.4	+ 4.7	+ 5.6
Gold				
$ per oz	282.35	278.60	+ 0.7	+ 4.7
West Texas Intermediate				
$ per barrel	19.43	19.28	– 6.4	–33.7

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jan 31st 2002
From The Economist print edition

Market indices

	Jan 30th	2001-02 high	2001-02 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,374.2	3,425.2	2,867.4	+ 0.3	– 1.5	+ 7.0	– 2.6
Austria (ATX)	1,164.7	1,245.8	1,014.3	+ 1.2	–33.0	+ 8.5	– 0.3
Belgium (Bel 20)	2,738.1	3,030.4	2,322.6	– 1.2	–25.6	– 9.5	–16.9
Britain (FTSE 100)	5,089.3	6,334.5	4,433.7	– 1.8	–26.6	–18.2	–22.6
Canada (Toronto Composite)	7,548.8	9,348.4	6,513.1	– 0.7	–33.7	–15.5	–20.2
Denmark (KBX)	216.8	294.3	197.8	– 1.7	–28.2	–18.1	–24.5
France (SBF 250)	2,891.3	3,820.2	2,335.3	– 0.3	–34.1	–23.3	–29.6
(CAC 40)	4,407.3	5,998.5	3,652.9	– 1.0	–36.3	–25.6	–31.7
Germany (Xetra DAX)	5,052.2	6,795.1	3,787.2	– 2.1	–37.4	–21.5	–27.9
Italy (BCI)	1,425.8	1,948.4	1,082.9	+ 1.2	–34.7	–25.6	–31.7
Japan (Nikkei 225)	9,919.5	14,529.4	9,504.4	– 1.2	–74.5	–28.0	–38.2
(Topix)	964.8	1,441.0	863.4	– 1.1	–66.6	–24.8	–35.5
Netherlands (AEX)	495.2	642.3	396.2	+ 0.5	–29.4	–22.3	–28.7
Spain (Madrid SE)	799.2	963.9	648.6	– 0.4	–30.3	– 9.3	–16.7
Sweden (Affarsvarlden Gen)	211.7	293.1	177.5	– 3.7	–47.1	–23.8	–32.6
Switzerland (Swiss Market)	6,212.4	8,135.4	5,110.2	– 1.5	–26.1	–23.6	–27.6
United States (DJIA)	9,762.9	11,337.9	8,235.8	+ 0.3	–16.7	– 9.5	– 9.5
(S&P 500)	1,113.2	1,373.7	965.8	– 1.3	–27.1	–15.7	–15.7
(Nasdaq Comp)	1,913.4	2,859.2	1,423.2	– 0.5	–62.1	–22.5	–22.5
Europe (FTSE Eurotop 300)*	1,220.6	1,545.5	998.9	– 0.8	–28.4	–20.4	–26.9
Euro area (FTSE Ebloc 100)*	1,068.6	1,404.1	843.6	– 0.6	–31.1	–23.2	–29.5
World (MSCI)†	960.0	1,249.2	856.6	– 1.8	–33.7	na	–21.4
World bond market (Salomon)‡	432.5	461.7	420.6	– 1.0	– 6.0	na	– 2.6

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Schroder Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

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Trade, exchange rates and budgets

Jan 31st 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2001	2002	Exchange rate trade-weighted† Jan 30th	year ago	Currency units per $ Jan 30th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2001‡
Australia	+ 2.1	Nov	− 8.5	Q3	− 2.3	− 2.8	73.4	74.3	1.98	1.82	2.79	1.70	1.49	0.1
Austria	− 5.0	Oct	− 4.3	Nov	− 2.5	− 2.2	100.0	100.5	16.0	14.8	22.6	13.8	12.0	nil
Belgium	+ 12.2	Nov	+ 12.4	Sep	+ 3.9	+ 4.2	98.6	99.4	46.8	43.4	66.1	40.3	35.2	nil
Britain	− 41.1	Nov	− 17.7	Q3	− 1.7	− 2.2	107.4	103.9	0.71	0.68	–	0.61	0.53	1.1
Canada	+ 42.5	Nov	+ 23.9	Q3	+ 2.7	+ 1.7	76.2	79.5	1.59	1.50	2.25	1.37	1.20	2.8
Denmark	+ 7.5	Nov	+ 4.8	Nov	+ 2.5	+ 2.1	101.8	102.0	8.62	8.02	12.2	7.43	6.48	2.0
France	+ 2.7	Nov	+ 24.1	Nov	+ 1.6	+ 1.5	101.1	102.1	7.61	7.05	10.8	6.56	5.72	-1.5
Germany	+ 70.7	Nov	− 4.5	Nov	− 0.6	− 0.3	98.1	99.1	2.27	2.10	3.21	1.96	1.71	-2.5
Italy	+ 6.9	Nov	− 1.7	Oct	− 0.2	+ 0.2	72.2	72.9	2,246	2,082	3,175	1,936	1,689	-1.4
Japan	+ 72.9	Nov	+ 89.9	Nov	+ 2.0	+ 2.0	128.6	142.5	133	116	188	115	–	-6.4
Netherlands	+ 20.2	Nov	+ 11.1	Q3	+ 3.7	+ 3.9	97.4	98.3	1.16§	1.08	1.64	–	0.87	1.1
Spain	− 38.4	Oct	− 14.1	Oct	− 2.5	− 2.3	73.9	74.5	193	179	273	166	145	nil
Sweden	+ 12.5	Dec	+ 6.3	Nov	+ 2.4	+ 2.3	75.5	79.6	10.67	9.52	15.1	9.20	8.02	3.8
Switzerland	+ 0.7	Nov	+ 25.4	Q3	+10.7	+11.1	111.7	108.3	1.71	1.64	2.41	1.47	1.28	na
United States	−434.0	Nov	−430.7	Q3	− 4.1	− 4.0	124.3	114.2	–	–	1.41	0.86	0.75	0.6
Euro area	+ 32.6	Nov	− 31.2	Oct	+ 0.2	− 0.1	77.7	80.9	1.16	1.08	1.64	–	0.87	-1.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 11.1	Nov	+ 8.5	Nov	na	na	77.8	78.2	6.90	6.39	9.75	5.95	5.19	3.7
Greece	− 7.7	Oct	− 7.2	Sep	na	na	57.3	57.6	395	366	559	341	297	0.2
Iceland	− 0.2	Nov	− 0.7	Q3	na	na	na	na	103	85.9	146	89.1	77.7	-0.2
Ireland	+ 31.8	Oct	− 1.5	Q2	na	na	86.5	88.3	0.91	0.85	1.29	0.79	0.69	3.2
Luxembourg	− 2.8	Nov	+ 1.2	Q2	na	na	98.6	99.4	46.8	43.4	66.2	40.3	35.2	5.3
New Zealand	+ 0.4	Dec	− 0.2	Q3	na	na	82.0	81.2	2.41	2.26	3.40	2.08	1.81	1.3
Norway	+ 25.5	Dec	+ 24.0	Nov	na	na	97.4	93.1	9.08	8.84	12.8	7.83	6.83	14.3
Portugal	− 13.9	Oct	− 10.5	Oct	na	na	88.9	89.6	233	216	329	200	175	-1.7

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate. §Now using euro only.

Text refers only to the first 16 countries listed

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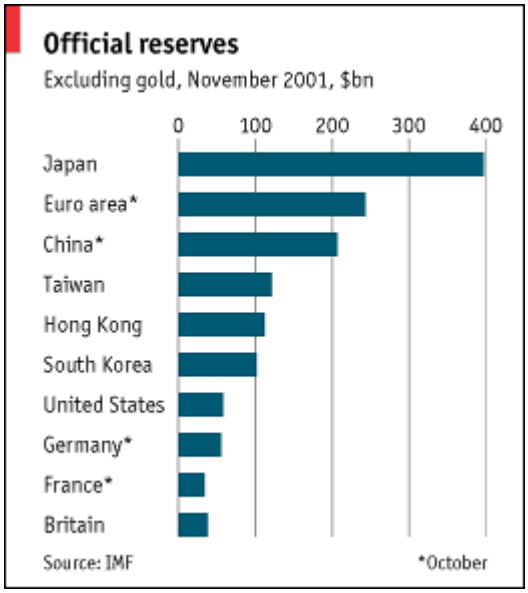
Official reserves

Jan 31st 2002
From The Economist print edition

Japan's official reserves—including foreign currency, special drawing rights and reserve positions at the IMF—rose to $397 billion in November, up from $355 billion in March.



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Overview

Jan 31st 2002
From The Economist print edition

Industrial production is still falling in some **East Asian economies**. **Singapore** suffered a particularly steep decline of 22.1% in the year to December. Over the same period, **South Korea** was a bit luckier, enjoying a rise of 3.3%, despite a dent in output in December owing to a strike in the car industry.

Setbacks to industry are also affecting Latin American economies. Industrial production fell by 1.9% in **Chile** in the year to December, and by more than 4% in **Colombia** and **Peru** in the year to November.

Brazil's current-account deficit was 4.6% of GDP in 2001, up from 4.2% in 2000. The trade balance, however, moved into surplus for the first time since 1994 as the *real*'s exchange rate became more competitive.

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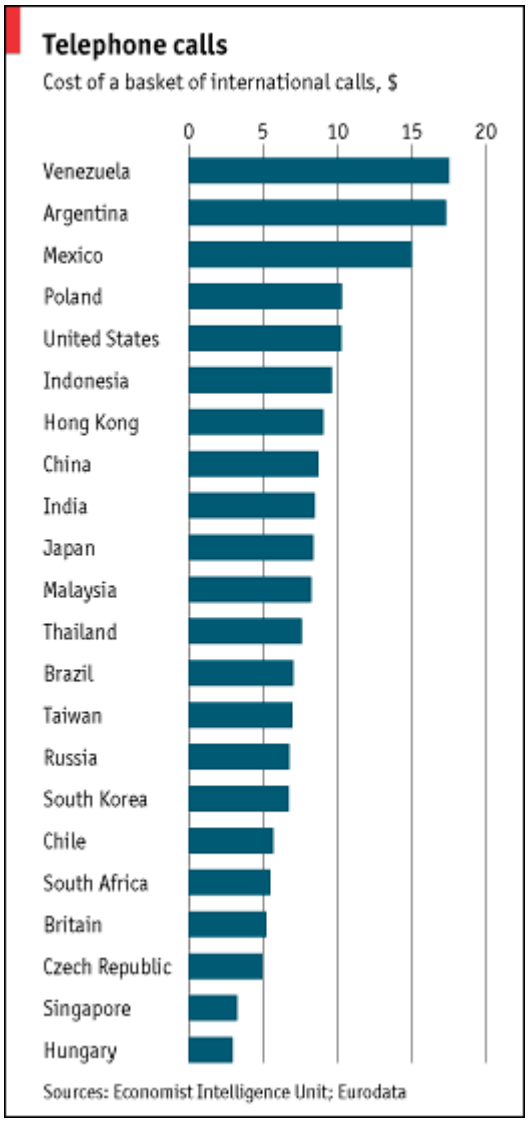
Telephone calls

Jan 31st 2002
From The Economist print edition

Deregulation and technical advance are pushing down the price of telephone calls. As liberalisation takes hold in more countries, further price falls are likely. The dearest countries in a study by the Economist Intelligence Unit, a sister company of *The Economist*, are in Latin America. Duopolies in Venezuela and Argentina were not opened to competition until November 2000, and international-call prices remain high.



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Economy

Jan 31st 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.0	Q3	+ 8.7	Dec	– 0.3	Dec	+22.6	Dec	+20.5	2000	206.5	Oct
Hong Kong	– 0.3	Q3	– 7.1	Q3	– 1.2	Dec	–11.2	Dec	+ 8.8	Q3	111.2	Dec
India	+ 5.3	Q3	+ 0.9	Nov	+ 5.2	Dec	– 5.7	Nov	– 0.7	Q3	45.2	Dec
Indonesia	+ 3.5	Q3	+ 3.2	Q2	+12.6	Dec	+25.4	Nov	+ 4.0	Q3	27.3	Nov
Malaysia	– 1.3	Q3	– 4.4	Nov	+ 1.2	Dec	+14.5	Nov	+ 7.4	Q3	29.4	Nov
Philippines	+ 3.8	Q4	– 0.2	Oct	+ 3.9	Dec	+ 3.4	Nov	+ 5.0	Oct	12.6	Nov
Singapore	– 7.0	Q4	–22.1	Dec	– 0.6	Dec	+ 5.2	Dec	+22.1	Q3	75.8	Dec
South Korea	+ 1.8	Q3	+ 3.3	Dec	+ 3.2	Dec	+ 9.5	Dec	+ 9.9	Nov	102.8	Dec
Taiwan	– 4.2	Q3	– 6.1	Dec	– 1.7	Dec	+15.7	Dec	+16.2	Q3	122.2	Dec
Thailand	+ 1.5	Q3	+ 0.1	Nov	+ 0.8	Dec	+ 2.5	Dec	+ 6.1	Nov	32.4	Dec
Argentina	– 4.9	Q3	–18.3	Dec	– 1.5	Dec	+ 5.6	Nov	– 6.8	Q3	18.1	Oct
Brazil	+ 0.3	Q3	– 2.0	Nov	+ 9.4	Dec	+ 2.6	Dec	–23.2	Dec	37.2	Nov
Chile	+ 2.6	Q3	– 1.9	Dec	+ 2.7	Dec	+ 1.4	Dec	– 1.7	Q3	14.2	Nov
Colombia	+ 1.0	Q3	– 4.3	Nov	+ 7.7	Dec	+ 0.7	Oct	– 1.2	Q3	10.3	Dec
Mexico	– 1.6	Q3	– 3.7	Nov	+ 4.4	Dec	– 9.7	Dec	–16.6	Q3	43.9	Nov
Peru	+ 1.7	Nov	– 4.2	Nov	– 0.1	Dec	– 0.1	Nov	– 1.4	Q3	8.8	Oct
Venezuela	+ 2.8	Q3	+ 7.9	Oct	+12.3	Dec	+13.0	Q3	+ 4.4	Q4	9.4	Nov
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.3	Oct	– 8.5	Sep	nil	Q3	13.8	Sep
Israel	– 2.7	Q3	– 9.6	Nov	+ 1.4	Dec	– 7.1	Dec	– 3.6	Q3	22.9	Dec
South Africa	+ 0.1	Q3	+ 4.1	Nov	+ 4.6	Dec	+ 4.8	Nov	+ 0.3	Q3	6.1	Nov
Turkey	– 7.1	Q3	–13.9	Nov	+68.5	Dec	–13.4	Oct	+ 0.9	Oct	18.9	Dec
Czech Republic	+ 3.2	Q3	+ 6.6	Nov	+ 4.1	Dec	– 3.1	Dec	– 2.6	Q3	14.3	Dec
Hungary	+ 3.7	Q3	– 0.8	Nov	+ 6.8	Dec	– 1.8	Nov	– 0.8	Nov	10.8	Dec
Poland	+ 0.8	Q3	– 4.8	Dec	+ 3.6	Dec	–11.8	Nov	– 7.2	Nov	25.2	Nov
Russia	+ 4.9	Q3	+ 2.6	Dec	+18.8	Dec	+52.3	Nov	+41.5	Q3	32.5	Dec
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 7.7	Sep	+ 2.6	Dec	– 1.0	Nov	+ 0.3	2001†	2.4	Oct
Saudi Arabia	+ 4.5	2000§	na		– 0.3	Oct	+50.9	2000	+15.6	2000	17.6	Nov

*Excluding gold, except Singapore; IMF definition. †Year ending June. § Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; Russian Economic Trends.

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Financial markets

Jan 31st 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jan 30th		Dec 31st 2000	
	Jan 30th	year ago	Jan 30th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.7	na	1,456.9	– 3.3	– 33.5	– 33.5
Hong Kong	7.80	7.80	11.0	1.99	10,757.0	– 0.0	– 28.7	– 28.7
India	48.5	46.4	68.5	6.71	3,298.8	– 2.2	– 17.0	– 20.0
Indonesia	10,325	9,450	14,594	17.59	444.4	+ 2.4	+ 6.8	+ 0.0
Malaysia	3.80	3.80	5.37	3.30	710.0	+ 3.1	+ 4.5	+ 4.5
Philippines	51.2	48.9	72.4	8.31	1,307.1	– 0.8	– 12.5	– 14.6
Singapore	1.83	1.74	2.59	1.06	1,755.6	+ 5.4	– 8.9	– 13.9
South Korea	1,306	1,257	1,846	4.68	749.5	+ 0.9	+ 48.5	+ 43.9
Taiwan	34.9	32.4	49.4	2.60	5,812.7	+ 0.7	+ 22.5	+ 16.0
Thailand	44.0	42.5	62.2	2.38	340.4	+ 4.1	+ 26.5	+ 24.8
Argentina	1.88**	1.00	2.66	na	454.3	+ 3.5	+ 8.9	– 42.1
Brazil	2.44	1.97	3.45	19.05	12,532.3	– 5.3	– 19.7	– 35.9
Chile	678	562	958	5.59*	5,270.3	+ 0.1	+ 8.2	– 8.3
Colombia	2,267	2,242	3,204	11.30	1,143.0	– 2.0	na	na
Mexico	9.19	9.68	13.0	7.85	6,750.8	– 0.5	+ 19.4	+ 24.9
Peru	3.48	3.53	4.92	2.48	1,267.6	+ 0.5	+ 4.9	+ 6.3
Venezuela	765	700	1,081	20.98	6,245.1	– 3.8	– 8.1	– 15.9
Egypt	4.63	3.87	6.55	7.23	4,815.8	– 6.7	– 37.1	– 47.2
Israel	4.60	4.14	6.51	2.22	429.7	– 1.1	– 13.1	– 23.7
South Africa	11.4	7.76	16.2	10.25	10,210.2	– 1.3	+ 22.6	– 18.9
Turkey	1,324,500	676,760	1,872,181	54.00	12,539.0	– 2.9	+ 32.9	– 32.8
Czech Republic	36.9	37.4	52.2	4.46	415.4	– 0.3	– 13.2	– 11.5
Hungary	282	285	398	8.88	7,884.7	– 1.3	+ 0.4	+ 0.7
Poland	4.15	4.09	5.87	10.72	15,748.8	– 1.7	– 11.8	– 12.2
Russia	30.7	28.5	43.4	25.00	284.7†	– 3.8	+113.0	+ 98.7
EMF (MSCI)‡	1.00	1.00	1.41	na	323.1	– 0.6	na	– 3.2
EMBI+§	1.00	1.00	1.41	na	204.2	– 1.1	na	+ 1.1

*Inflation adjusted. †In $ terms. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus. **Fixed official rate 1.40.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; Russian Economic Trends.

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